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Compliance Supplement for Single Audits of State and Local Governments

(Revised 1990)

Executive Office of the President
Office of Management and Budget

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Revised September 1990

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Part 1. INTRODUCTION

INTRODUCTION

This document sets forth the major compliance requirements that should be considered in an organization-wide audit of State and local governments that receive Federal assistance. It supplements OMB Circular A-128, "Audits of State and Local Governments."

Following the Introduction, the document is divided into Parts 2 and 3. Part 2 contains those generally applicable requirements that shall be considered in financial compliance audits. Generally applicable requirements are national policies prescribed by statute, Executive order, or other authoritative source and which apply to the assistance programs of two or more agencies. Those included here are ones that, if not observed, could have a material effect on the organization's financial statements including those prepared for Federal programs.

Of particular note is inclusion of the requirement for periodic Federal financial reports, as specified in Section .41 of "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (common rule) published in the *Federal Register* on March 11, 1988 and agency regulations covering open-ended entitlement programs. The auditor's test of compliance with this requirement, for those grant programs where such requirements exist, provides the Federal Government with the necessary assurances of completeness and reliability of such reports.

Part 3 of the document provides requirements that are specific to programs that provide over 90 percent of the Federal aid to State and local governments. For each program, the following is provided: Objectives of the program; a brief description of how the program operates; and the major compliance requirements, including a Code of Federal Regulations (CFR) or statutory reference where additional information for the requirement can be obtained. The requirements are organized into five categories: (1) types of service allowed or unallowed; (2) eligibility; (3) matching, level of effort or earmarking requirements; (4) reporting requirements; and, (5) special tests and provisions. Federal agencies have determined that, in general, not complying with those requirements might materially affect the program.

Each requirement is accompanied by suggested audit procedures that can be used to test for compliance. These are not the only procedures an auditor can use. Nor are they mandatory procedures. Auditors should apply professional judgment and use any procedures that they choose to decide the extent of reviews and tests performed. Some of the audit procedures call for review and evaluation of internal controls. If these reviews and evaluations have been made as part of the review of the internal control structure, the audit procedures on individual programs should be tailored accordingly.

Since some programs provide funds that pass from one level of government to another, some of the requirements are for the government that receives the funds initially and makes the allocations to others; some are for the government that receives the funds ultimately and provides the services; and, some are for both. The auditor should be able to determine the applicable procedures in each instance.

The Federal departments and agencies have identified the compliance requirements and suggested audit procedures for each program as the ones that will meet the compliance testing requirements of Circular A-128, "Audit of State and Local Governments." However, the auditor is responsible for ensuring that specific requirements which are modified because of changes in laws or regulations are included in the audit procedures.

Questions regarding a requirement, including requests for information about changes in requirements, should be addressed to the administering agency. Requirements and suggested audit procedures for smaller grant programs not contained herein can also be obtained from the administering department or agency. Also, auditors may refer to the statute or Code of Federal Regulations to obtain complete requirements.

Part 2. GENERAL REQUIREMENTS

GENERAL REQUIREMENTS

Several statutory and regulatory requirements are applicable to all or most Federal assistance programs. The following are those requirements that involve significant national policy and for which failure to comply could have a material impact on an organization's financial statements including those prepared for Federal programs.

Accordingly, these compliance requirements shall be included as part of every audit of State, local, and Tribal government that involves Federal financial assistance whether or not the government has a major program.

POLITICAL ACTIVITY

Compliance Requirement

Federal funds cannot be used for partisan political purposes of any kind by any person or organization involved in the administration of federally-assisted programs.

[Hatch Act (5 U.S.C. 1501–1508) and Intergovernmental Personnel Act of 1970, as amended by Title VI of Civil Service Reform Act (Public Law 95–454 Section 4728)].

Suggested Audit Procedures

- Test the expenditure and related records for indications of lobbying activities, publications, or other materials intended for influencing legislation or similar type costs.
- Test the personnel and payroll records, and identify persons whose responsibilities or activities include political partisan activity.
- Test whether the above costs, if any exist, are charged directly or indirectly, to federally-assisted programs.

DAVIS-BACON ACT

Compliance Requirement

When required by Federal grant program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by Federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor. [40 Stat 1494, Mar. 3, 1921, Chap. 411, 40 U.S.C. 276A-276A-5].

Suggested Audit Procedures

- Identify the programs involving construction activities.
- Review selected construction contracts and subcontracts and determine whether they contain provisions requiring the payment of "prevailing" wages.
- Review the government's system for monitoring applicable contractors and subcontractors with respect to payment of prevailing wages and evaluate for adequacy.
- Review the monitoring system for contracts for selected programs and determine whether there is adherence to the prescribed procedures.
- For governments which have not developed a system, or whose system is not operating effectively:
  - Obtain the "local" DOL wage determination from the auditee, the architect/engineer (A/E) managing the project, or DOL.
  - Obtain from the auditee payroll registers of the construction company and test to determine whether wages paid conform to the prevailing wages.

CIVIL RIGHTS

Compliance Requirement

No person shall, on the grounds of race, color, national origin, age, or handicap, be excluded from participation in or be subjected to discrimination in any program or activity funded, in whole or in part, by Federal funds. Discrimination on the basis of sex or religion is also prohibited in some Federal programs. (Age—42 U.S.C. 6101 *et seq.*; Race—42 U.S.C. 2000d; Handicap—29 U.S.C. 794.)

Suggested Audit Procedures

- Determine whether the governmental unit has announced a formal policy of nondiscrimination.
- For recipients employing 15 or more persons, ascertain whether a person has been designated to oversee civil rights compliance.
- Ascertain from the grant agreements whether any of the programs contain prohibitions against discrimination on the basis of sex or religion.
- Ascertain the number of complaints filed with Federal, State and/or local agencies responsible for ensuring nondiscrimination in government programs during the fiscal year, the status of unresolved complaints or investigations, and the actions taken on resolved complaints or completed investigations.
- Ascertain whether programs contain prohibitions against discrimination in employment; for those programs (1) review the annual report filed with the Equal Employment Opportunity Commission (EEOC), if any; (2) ascertain the number of complaints or completed investigations; and, (3) review the status of unresolved complaints or investigations and the actions taken on unresolved complaints or completed investigations.
- Determine whether facilities financed by Federal funds that are required to be located in a nondiscriminatory manner are so located.
- Obtain representation and/or attorney letters to determine if any civil rights suits have been adjudicated or are pending.

CASH MANAGEMENT

Compliance Requirements

Grantee financial management systems shall include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee.

Advances made by primary recipients to secondary recipients shall conform substantially to the same standards of timing and amount as apply to advances by Federal agencies to primary recipient organizations.

Suggested Audit Procedures

- Review the government's cash forecasting process and evaluate for adequacy.[1]
- Review the government's system for requesting Federal funds and evaluate whether it is adequate to keep Federal cash disbursements limited to the government's immediate needs.
- For selected grant programs, determine dates and amounts for selected advances, drawdowns and other receipts of Federal funds and compare to the dates the funds were disbursed and/or checks were presented to the banks for payments.
- For the same programs, evaluate the size of the balances in relation to the programs needs.
- Review the government's system for monitoring advances and payment requests by secondary recipients. Evaluate whether the system is sufficient to limit payments to amounts needed to meet immediate cash requirements.

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[1] For purposes of this supplement, adequacy can be interpreted as providing a reasonable assurance that the system or procedures, if followed, will result in the intended event or action occurring.

- Review selected cash reports submitted by subrecipients and determine if the reports show large amounts of excess cash. If they do, ascertain why.

RELOCATION ASSISTANCE AND REAL PROPERTY ACQUISITION

Compliance Requirement

Federal aid programs may require the acquisition of property by a public agency and subsequent displacement of households and businesses.

Grant recipients acquiring property in the administration of Federal aid must carry out certain actions systematically, e.g., have property appraised in presence of owner, review appraisals, set price and negotiate settlements. Similarly, when displacements (relocations) are involved,the recipient must, for example, provide assistance systematically in locating replacement housing, assure that it meets acceptable standards and maintain records on all acquisitions and displacements (Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) (Public Law 91–646 as amended by the Uniform Relocation Act Amendments of 1987, Title IV of the Surface Transportation and Uniform Relocation Act of 1987 (1987 Amendments) Public Law 100–17, 101 Stat. 246–256 (See Common Rule Appendix B).

Suggested Audit Procedures

- Ascertain whether the recipient is administering a Federal or federally-assisted program that involves the acquisition of property or the displacement of households or businesses by a public agency.
- Review the organization's system for compliance with relocation assistance and real property acquisition requirements and evaluate for adequacy.
- Review the monitoring system for relocation and acquisition activity for selected programs and determine whether there is adherence to the prescribed procedures.

FEDERAL FINANCIAL REPORTS

Compliance Requirement

Most Federal programs require the periodic submission of financial reports that fall within one or more of the following three categories. The special requirements for each grant program are presented in the Reporting Requirements (III–D) section for that program. The suggested audit procedures are provided below to facilitate the requirement for the auditor to comment on completeness and accuracy. [Section .41, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule) and Treasury Circular 1075, "Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs"]

1. Section ____.41, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and local Governments", lists four required financial reports that apply to most of the programs described in this document.

- ***Financial Status Reports (SF-269 and SF-269A)***—Report status of funds for all non-construction programs.
- ***Request for Advance or Reimbursement (SF-270)***—Requests funds for non-construction programs when advance letter of credit or predetermined advance payments are not used.
- ***Outlay Report and Request for Reimbursement for Construction Programs (SF-271)***—Requests reimbursements and reports status of funds for construction programs.
- ***Federal Cash Transactions (SF-272)***—Reports cash transactions and balances for grantees receiving cash by letter of credit or Treasury checks.

2. Treasury Circular 1075 lists two alternative cash management reports, one of which applies to each program financed through letters of credit:

- Request for Payment on Letter of Credit and Status of Funds Report (SF–183).

Part 3. AGENCY PROGRAMS

Section A. DEPARTMENT OF AGRICULTURE

RURAL RENTAL HOUSING LOANS

10.415

I. PROGRAM OBJECTIVES

The objective of the Rural Rental Housing Loan Program is to provide economically designed and constructed housing suited for independent or congregate living of senior citizens, handicapped persons, and other persons of low and moderate incomes who live in rural areas.

II. PROGRAM PROCEDURES

Loans are provided to State and local public agencies (as well as individuals, trusts, associations, partnerships, consumer cooperatives, and profit and nonprofit corporations) on approval of an application to construct or rehabilitate housing.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Loan proceeds can be used only for the purchase of land and construction of new multi-unit housing, purchase and rehabilitation of existing housing, development and installation of related improvements and facilities, and payment of related professional fees and charges reasonable and typical for the area. (7 Code of Federal Regulations (CFR) 1944.212, 1944.215)

Suggested Audit Procedures

- Test financial and related records and determine if expenditures were made only for authorized loan purposes within loan limits and limitations on use of loan funds.
- Ascertain whether the Rural Rental Housing (RRH) project is capitalized in the borrower's financial records at the total development cost including the portion financed by Farmers Home Administration (FmHA) and contributed by the borrower, less depreciation.
- Ascertain professional fees and other development costs for similar housing in the area (by referring to professional society data) and compare with costs for projects operated by recipient organization.

B. Eligibility

FmHA determines the eligibility of the borrower.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements

D. Special Reporting Requirements

Compliance Requirement

Borrowers are required to prepare a "Monthly Report" (FmHA 1930–6) of project performance unless waived by FmHA, an annual "Year-End Report and Analysis" (FmHA 193—8), and a "Statement of Budget and Cash Flow" (FmHA 1930–7). (7 CFR 1930.124)

Suggested Audit Procedures

- Obtain copies of submitted reports and review for completeness and timeliness of submission.
- Trace data in selected reports to supporting records.

Compliance Requirements

- Borrowers must comply with terms of Loan Agreements/Resolutions and FmHA regulations.
- All project funds must be maintained separate and distinct from other projects.
- All funds in any account are to be used only for authorized purposes as described in the loan agreement and FmHA regulations. (7 CFR 1930.122, 1930–C Exhibit B Part XIII)

Suggested Audit Procedures

- Review compliance with borrower's loan agreement/resolution to determine that requirements such as funding of reserve accounts are on schedule and that there are no unauthorized withdrawals from project accounts.
- Test to determine whether funds disbursed from the accounts were for authorized purposes and if required monthly debt service payments and transfer to escrow and reserve acounts were made.
- Determine if a separate bank account is maintained for tenant security deposits and if sufficient funds are in the account to cover security deposits collected from current tenants.

E. Special Tests and Provisions

Compliance Requirements

- Housing must be occupied by elderly persons, handicapped persons, low- or moderate-income persons, or domestic farm laborers. (7 CFR 1944 D, E; 7 CFR 1930 C)
- Tenants occupying a rural rental unit under the "Rental Assistance" program and eligible to receive rental assistance must pay up to 30 percent of their adjusted income for rent after an initial phase-in period (less an approved utility allowance when applicable). Maximum tenant contribution levels are set out in paragraph IV of Exhibit B of 7 CFR Part 1930 Subpart C.
- Tenants occupying a rural rental unit under the Plan II Interest Credit program must pay 30 percent of their income for rent after an initial phase-in period (less an approved utility allowance when applicable), with a minimum of the basic rent and a maximum of the market rent.
- Tenants occupying a rural rental unit under the "Section 8 Housing Assistance Payments Program" must pay a rent determined by U.S. Department of Housing and Urban Development (HUD) regulations.
- A tenant occupying a labor housing unit must be engaged in domestic farm labor.
- All rental rates must be approved by FmHA. (7 CFR 1944 D, E; 7 CFR 1930 C)

Suggested Audit Procedures

- Examine the agency's procedures for assuring that housing is occupied only by eligible persons, including use of official definitions for eligible categories, and evaluate for adequacy.
- Review the records for selected occupants, and determine whether there is adherence to prescribed procedures.
- Examine the notice of approval provided by FmHA for the rental rate.
- Examine the owner's procedures for ascertaining and verifying tenants' income, and evaluate for adequacy.
- Review selected tenants' files to determine whether there has been adherence to prescribed procedures for determining and verifying tenants' income.

Compliance Requirement *(Management Plan and Agreement)*

Management plans are required for most RRH projects. The management plan describes the policies and procedures in managing the project. The management agreement is the primary document by which the management agent is guided, evaluated, and compensated. Both the management plan and agreement must be approved by FmHA. Revised agreements must be submitted when agent or ownership has changed or when a revision is necessary or required. (7 CFR 1930–C Exhibit B V and Exhibits B–1, B–2, and B–3)

Suggested Audit Procedures

- Ascertain if the borrower has a management plan and a management agreement if required, which have been approved by FmHA.
- Test whether the management services provided, compensation paid, and other management- related expenses incurred were in

accordance with the management plan and agreement.

WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES

10.418

I. PROGRAM OBJECTIVES

The objectives of the Water and Waste Disposal Systems for the Rural Communities Program are to provide grants and loans for new and improved water and/or waste disposal systems serving rural areas when financing is not available at reasonable rates and terms from other sources.

II. PROGRAM PROCEDURES

FmHA makes loans and grants to local governments or subdivisions thereof and to federally recognized Indian Tribal organizations for the development or improvement of water and waste disposal facilities to serve rural areas.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Federal funds may be expended only on eligible project costs approved by FmHA, such as land acquisition, legal fees, engineering fees, construction costs, and the purchase of equipment. (7 CFR 1942.17(d), 1942.358)

Suggested Audit Procedures

- Review loan resolution, grant agreement, and/or bond resolution.
- Test expenditure and related records.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

Grantees are required to provide funds from other sources as specified in the grant agreement (7 CFR 1942.358(e)) and the letter of conditions issued by FmHA (7 CFR 1942.5(a)(1)).

Suggested Audit Procedures

- Examine the grant agreement and letter of conditions, and ascertain the amount of funds to be provided by the recipient.
- Test the financial records, and determine the amount and source of matching funds.

D. Special Reporting Requirements

Compliance Requirements

The following financial or management reports must be submitted periodically for that program:

- Annual Audited Financial Statement of Borrower. (7 CFR 1942.17 (q))
- FmHA Form 442–2, Statement of Budget Income and Equity. (7 CFR 1942.17 (q))

Suggested Audit Procedure

Review FmHA Form 442–2 for completeness.

E. Special Tests and Provisions

Compliance Requirement

FmHA must approve all expenditures before they are made. The borrower must monitor the use of funds in accordance with 7 CFR 1942.17(p)(3).

Suggested Audit Procedure

Review the borrower's records relating to monitoring of funds, and determine whether prior FmHA approval was obtained.

BUSINESS AND INDUSTRIAL LOANS

10.422

I. PROGRAM OBJECTIVES

The objectives of the Business and Industrial Loans Program are to improve, develop, or finance business, industry, and employment, and improve the economic and environmental climate in rural communities.

II. PROGRAM PROCEDURES

Direct loans are made from the FmHA Rural Development Loan Fund to municipalities, counties, Tribal governments, corporations, and individuals in rural areas to prepare land for industrial sites and for business purposes.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Loan proceeds can be used to acquire or prepare land for industrial sites (but not for improvements erected thereon), access streets and roads, parking areas, transportation servicing the sites, and utility extension; to construct and equip industrial plants for lease to private businesses (but not for operating the businesses); and to aid in the development of private business and industry. (7 CFR 1980.402(b), 1980.481)

Suggested Audit Procedure

Test expenditure and related records.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

The following financial report must be submitted periodically for this program: Statement of Budget, Revenue and Equity (FmHA 442-2). (7 CFR 1942.17(q)(2))

Suggested Audit Procedure

Review the report for completeness.

E. Special Tests and Provisions

Compliance Requirement

Borrowers must certify in writing that they are unable to obtain credit throuqh commercial sources or from their own funds. (7 CFR 1942.17(b)(2))

Suggested Audit Procedure

Examine documentation for selected borrowers and identify the necessary certification.

COMMUNITY FACILITIES LOANS

10.423

I. PROGRAM OBJECTIVES

The objective of the Community Facilities Loan Program is to provide funds to rural communities with which they may construct, enlarge, extend, or otherwise improve facilities that are providing essential services when financing is not available at reasonable rates and terms from other sources.

II. PROGRAM PROCEDURES

Loans are made by FmHA directly to local governments and Indian Tribal organizations for public facilities that provide essential community services primarily to rural residents.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Service Allowed or Unallowed

Compliance Requirement

Funds must be used for overall community development, such as fire and rescue, and facilities related to health care or social and cultural benefits, and include eligible project costs previously approved by FmHA, such as land acquisition, legal fees, engineering/architectural fees, construction costs, and purchase of equipment. (7 CFR 1942.17(d))

Suggested Audit Procedure

Test for financial compliance with loan agreements. Test for authorized use of loan funds.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements except as detailed in the letter of conditions issued by FmHA. (7 CFR 1942.5(a)(1))

Suggested Audit Procedure

Test for compliance with letter of conditions.

D. Special Reporting Requirements

Compliance Requirement

FmHA must approve all expenditures before they are made. The borrower must monitor the use of funds in accordance with 7 CFR 1942.17(p)(3).

Suggested Audit Procedure

Review the borrower's records relating to monitoring of funds to determine whether prior FmHA approval was obtained.

E. Special Tests and Provisions

There are no special tests or provisions.

FOOD DISTRIBUTION

10.550

I. PROGRAM OBJECTIVES

The objectives of the Food Distribution Program are to improve the diets of school children, needy persons in households on or near Indian reservations not participating in the Food Stamp program and in charitable institutions, the elderly, and other individuals in need of food assistance, and to increase the market for domestically produced foods acquired under surplus removal or price support operations.

II. PROGRAM PROCEDURES

The program involves making food available to a designated State agency, such as a State department of education, Indian Tribal organization, or to a private designated agency, for distribution to recipient agencies, including schools, charitable institutions, nutrition programs for the elderly, and nonprofit summer camps for children. The households and individuals are not charged and the food may not be sold, exchanged, or otherwise disposed of without prior, specific approval of the Department. The Food and Nutrition Service (FNS), the administering Federal agency, also provides funds to defray, in part, the operating expenses incurred in administering the food distribution program. The States may also enter into an agreement, called a processing contract, with a commercial organization to use U.S. Department of Agriculture (USDA)-donated commodities to manufacture and deliver specific food products to eligible recipients.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility

Compliance Requirement

Donated foods can be distributed only to recipient agencies (1) schools participating in the national school lunch or school breakfast programs, non-program schools, and commodity-only schools; (2) public or private charitable institutions; (3) nonprofit summer camps for children; (4) agencies administering programs under Title III and Title VI of the Older Americans Act; (5) tribal or State agencies servicing needy family programs on or near tribal reservations or in the Trust Territories; (6) State correctional institutions; (7) service institutions that participate in the Summer Food Service Program; (8) nonresidential child care institutions participating in the Child Care Food Program; and (9) disaster organizations. (7 CFR 250.6; 250.8; Public Law 97–35, sec. 803(a))

***Suggested Audit Procedures** (State Level)*

- Examine the State distributing agency's procedures for distributing the donated foods to determine whether they provide reasonable assurance that such foods will be distributed only to eligible organizations.
- Select a sample of food shipments. Inspect the State distributing agency's files on these shipments to determine whether they had been conducted in accordance with the State distributing agency's prescribed procedures.

***Suggested Audit Procedures** (Local Level)*

- Examine the recipient organization's procedures for receiving, storing, and distributing the donated foods to determine whether they conform to the recipient agency's agreement with the State distributing agency.

- Determine through observation, inquiry, and/or inspection of records whether the recipient agency uses the donated foods only for purposes authorized in its agreement with the State distributing agency.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

Form FNS–155, "Receipt and Distribution of Donated Commodities," is prepared monthly and submitted to the applicable FNS regional office. This report presents the following data for the report month: (1) the types and quantities of donated foods received by the State distributing agency, (2) the types and quantities shipped to each class of recipient organization, and (3) the State distributing agency's beginning and ending inventories of each type of commodity.

Suggested Audit Procedures

- Select a sample of submitted FNS–155 reports and inspect them for completeness.
- Verify the data presented in the selected reports to the supporting documentation, such as inventory records, files on shipments to recipient organizations, etc., to determine whether all reported data are accurate and supported by corroborating evidence.
- Trace data from source documents to the FNS–155 reports for the same months to determine whether all transactions occurring in those months had been captured by the submitted reports.

E. Special Tests and Provisions

Compliance Requirement

States may enter into contracts with processors for the processing of donated foods. Processing contracts must contain the following provisions: (1) names and telephone numbers of the State distributing agency and processor; (2) description of each end-product and the quantity of each donated food and other ingredients required; (3) the contract value of each donated food to be processed; (4) identification of the location where the processing is to take place; (5) provisions for termination of the contract and disposition of donated foods and end-products in the processor's inventories; (6) if end-products are sold to recipient agencies through a distributor, description of the system that will be used for such transactions and a provision that the processor remains accountable for the donated foods until refunds or other credits equal to the donated foods' contracted value have been made to eligible recipient agencies; (7) provision for a surety bond from a surety company listed in the most recent Treasury Circular 570; (8) a requirement that the processor follow the State distributing agency's instructions in using the containers in which the donated foods had been shipped; (9) if the processor is a multi-State processor, a requirement that the processor obtain an independent audit; and (10) description of reports the processor will submit to the State distributing agency. (7 CFR 250.30)

Suggested Audit Procedures

- Inspect the State distributing agency's shipping records and files on processors to determine whether donated foods had been shipped to a processor with whom the State distributing agency did not have a processing contract in effect.
- Select a sample of processing contracts. Inspect them to determine whether they contain all provisions required by program regulations.

FOOD STAMPS

10.551

I. PROGRAM OBJECTIVES

The objectives of the Food Stamp Program are to help low-income households buy the food that they need for good health and to promote the distribution of the Nation's agricultural abundance in a beneficial manner and thereby strengthen the agricultural economy.

II. PROGRAM PROCEDURES

The Federal Government provides food stamps to State welfare agencies that administer the program. Participating households receive coupons, free of charge, which they exchange for food at authorized grocery stores. The amount of food stamps a household receives depends on the household's size and financial circumstances. FNS administers the program in cooperation with State welfare agencies and provides for full cost of the food stamps themselves. Grocers redeem the food stamps with FNS through the banking system without the direct involvement of State governments.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

(*Note*: For audits of county governments, only Requirement D, "Special Reporting Requirements," is applicable.)

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility

Compliance Requirement

The State agency must have documentation to support eligibility, ineligibility, and benefit determinations. Documentation must be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the determination. Certification records must be retained by the State agency for 3 years. These records can be a combination of paper documents, notes, and data held in automated storage media.

Suggested Audit Procedure

Inspect case files corresponding to issuance records selected from the master issuance file to determine whether the necessary documentation is present to support the recipient's eligibility for program benefits.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

Each State agency, county agency, or contracted issuing agent that distributes food stamps is required to prepare a Food Coupon Accountability Report (FNS-250) monthly to report food stamp issuance and inventory. The State agency in State-conducted operations and the county agency in States county-conducted operations must verify the accuracy of the FNS-250 and prepare a Food Stamp Program Reconciliation Report (FNS-46). The State agency or county agency is required to make a physical inventory of the food stamps at least once every 3 years. (7 CFR 274.4(a), (b), and (c))

Suggested Audit Procedures

- Trace data in selected reports to such supporting documentation as prenumbered authorization-to-participate (ATP) cards, records of issued food stamps, and physical inventory counts.

- Ascertain that procedures used to conduct physical inventories are appropriate, inventories are made as required, and differences between recorded and actual inventories are reconciled.

E. Special Tests and Provisions

Compliance Requirement

If a household receives more food stamp benefits than it is entitled to receive, the State must establish a claim against that household and demand repayment. In turn, the State is required to remit the collected repayments to FNS as follows: 50 percent of the recovered funds from claims involving fraud or other intentional program violations; 75 percent of the recovered funds from claims involving inadvertent household errors; and 100 percent of the recovered funds from agency error over payments. (7 CFR 273.18(h))

Suggested Audit Procedures

- Test claims collection records to determine whether both claims established and collections received have been reported on the Status of Claims Against Households (FNS-209).
- Test the request(s) for payments on a letter of credit to determine whether 50 percent of the collections for fraud claims, 75 percent of the collections for inadvertent household error claims, and 100 percent of the collections for agency error claims have been reported as Federal cash on hand, thereby reducing the request for payment. Or if the State pays FNS by check for recipient claims collected, review this payment record against the record of collections received from households.

Compliance Requirement

The State is required to maintain adequate security over ATP cards, other documents authorizing issuance, and the food stamps themselves. (7 CFR 274.7(b), 274.11(c))

Suggested Audit Procedures

- Review the physical security over food stamps, ATP cards, and/or other negotiable instruments used in the issuance process.
- Review processes and controls for the return and disposition of ATP cards or food stamps that the Postal Service was unable to deliver.

SCHOOL BREAKFAST PROGRAM

10.553

and

NATIONAL SCHOOL LUNCH PROGRAM

10.555

I. PROGRAM OBJECTIVES

The objectives of the National School Lunch Program (NSLP) and School Breakfast Program (SBP) are to assist States, through cash grants and food donations, in making breakfast and lunch available to school children, and encourage the domestic consumption of agricultural commodities and other foods.

II. PROGRAM PROCEDURES

FNS generally administers these programs through grants to State agencies (generally State educational agencies). The State agencies, in turn, enter into agreements with local School Food Authorities (SFAs) for the operation of the program. FNS furnishes program funds to State agencies by letter of credit. The State agency's funding level is the product obtained by multiplying the number of lunches served under the NSLP and breakfasts served under the SBP by corresponding payment rates (called the "national average payment factors"). Funding the NSLP consists of "General Assistance" payments for all lunches served and additional "Special Assistance" for lunches served free or at reduced price. State agencies use these funds to reimburse SFAs under their oversight for meals served to eligible children. In addition to cash assistance, FNS furnishes donated foods to States on the basis of the projected number of lunches to be served in participating schools. State agencies distribute such commodities to SFAs on the basis of annually adjusted per-meal values. Bonus commodities can also be made available to States for use in these programs. In some States, State constitutional or statutory prohibitions preclude the State educational agency from entering into agreements with private schools. Private schools in such States may participate in the programs by entering into agreements with FNS, which then performs the functions normally performed by the State agency.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- To be eligible for Federal reimbursement, lunches and breakfasts must contain the food items prescribed by program regulations.
  - A lunch must generally contain (1) milk; (2) meat or meat alternate, cheese, dry beans, eggs, and so forth; (3) two fruits and/or vegetables (each one counts as a food item); and (4) bread or bread equivalent (rice, macaroni, other pasta products, etc.). Lunches served to children in secondary schools (as defined by the State) are eligible if only *three* of these food items are present, *provided* all five have been offered to each child. Lunches served to children in elementary schools whose SFAs have elected to do so are eligible if *four* food items are present *and* all five have been offered to each child. (7 CFR 210.10)

— A breakfast must contain (1) milk; (2) fruit and/or vegetable; (3) bread or bread alternate (cereal, etc.); and (d) meat or meat alternate. (7 CFR 220.8)

- All meals SFA reports to the State agency for reimbursement must (1) be supported by accurate meal counts and records, and (2) be served to eligible children. (See "Recipient Eligibility," below.) (7 CFR 210.2, 220.2, 210.6, 220.6)

***Suggested Audit Procedures** (State Level)*

- Examine the system used by the State agency to process SFA claims for reimbursement, and determine whether it contains controls providing reasonable assurance that SFAs will not be paid for meals that (1) had not contained the required food items, (2) had been based on inaccurate meal counts, or (3) had been served to persons ineligible for the program or for the category of meal (paid, free, or reduced price) claimed.
- Select a sample of reimbursement claims on file at the State agency. Inspect the claims and related documents (such as agreements with the SFAs, reports of program reviews performed, etc.) to determine whether the State agency's prescribed procedures are being followed.

***Suggested Audit Procedures** (Local Level)*

- Examine SFA procedures for capturing data on eligible meals served and preparing claims for reimbursement. Determine whether they contain controls providing reasonable assurance that all meals reported to the State agency for reimbursement (1) contain all required food items, (2) are based on accurate counts, and (3) are served to eligible children.
- Determine through inquiry and observation of meal service at one or more schools under the SFA's jurisdiction whether the SFA's prescribed procedures for capturing data on eligible meals served are being followed.
- Select a sample of previously submitted claims on file at the SFA. Inspect them and their supporting documentation to determine whether the prescribed claims preparation procedures are being followed.

B. Eligibility

***Compliance Requirement** (Organizational Eligibility)*

The State agency may disburse program funds only to organizations that meet the regulatory definition of "school." Such organizations include (1) public and nonprofit private schools of high school grade or under that are recognized as part of the educational system in the State; (2) public or nonprofit private schools of preprimary grade that are conducted in eligible public or nonprofit private schools with elementary or secondary grades; and (3) public and licensed nonprofit private residential child care institutions (RCCIs), such as orphanages, group homes, halfway houses, temporary shelters for abused or runaway children, homes for the mentally, emotionally or physically impaired, and the like. As used in this compliance requirement, "nonprofit" means exempt from income tax under section 501(c)(3) of the Internal Revenue Code of 1954. (7 CFR 210.2, 220.2)

***Suggested Audit Procedures** (State Level)*

- Examine the State agency's prescribed procedures for processing organizations' applications to operate the program(s) to determine whether such procedures provide reasonable assurance that only eligible organizations will be accepted.
- Select a sample of the State agency's files on SFAs currently operating the program(s). Inspect them to determine whether the State agency's prescribed procedures are being followed.

***Suggested Audit Procedure** (Local Level)*

Inspect documents on file at the SFA to determine whether it is eligible to operate the program. Such documents may include notification of tax-exempt status issued by the Internal Revenue Service, licenses issued by applicable regulatory agencies, etc.

***Compliance Requirements** (Recipient Eligibility)*

- To receive meals under the program(s), a person must meet the regulatory definition of "child." This definition includes (1) a student of high school grade or under (as determined by the State educational agency) enrolled in an educational unit of high school grade or under, including students who are

mentally or physically handicapped (as defined by the State) and who are participating in a school program established for the mentally or physically handicapped; and (2) a person who has not reached his/her 21st birthday and is enrolled in an RCCI. (7 CFR 210.2, 220.2)

- To qualify a child for meals served free or at reduced price under the program(s), the child's family must submit an application to SFA. The application must be approved and maintained on file. The application establishes that the child's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by FNS. (7 CFR 245.6)
- A SFA must verify the information presented on a sample of the applications that it has *approved* for free or reduced price meals. SFA may select the sample by either (1) random sampling (the lesser of 3,000 approved applications or 3 percent of total approved applications on file, all randomly selected), or (2) focused sampling, which requires a sample consisting of approved applications from non-Food Stamp households claiming monthly income within $100 or annual income within $1,200 of the income eligibility limit for free or reduced price meals and Food Stamp households. In focused sampling, the sample size is the sum of the following: (1) for non-Food Stamp households, the less of 1,000 or a figure equal to 1 percent of total approved applications (from all households) on file, and (2) for Food Stamp households, the less of 500 or 0.5 percent of approved applications on file from Food Stamp households. A State agency may, with prior FNS approval, assume from SFAs under its jurisdiction the responsibility for performing the verifications. (7 CFR 245.6a)

***Suggested Audit Procedures** (State Level)*

- Obtain the current family size and income guidelines published by FNS. Inspect the income eligibility standards issued by the State agency to determine whether they conform to FNS guidelines.
- Determine through inquiry whether the State agency performs the verification function. If so, examine its procedures for doing so to determine whether such procedures conform to the requirements outlined in the related compliance item.

***Suggested Audit Procedures** (Local Level)*

- Examine SFA procedures for processing applications for free and reduced price meals to determine whether the procedures provide reasonable assurance that only children meeting the income eligibility guidelines published by FNS will be approved to receive meals free or at reduced price. To perform this procedure, it will be necessary to obtain the income eligibility guidelines from FNS.
- Select a sample of applications on file at SFA or at schools under its jurisdiction. Inspect them to determine whether the SFA prescribed procedures for processing applications are being followed.
- Determine through inquiry whether SFA performs the vertification function. If so, examine its procedures for doing so to determine whether such procedures conform to the requirements outlined in the related compliance item and instructions received from the State agency.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The State is required to contribute from State-appropriated funds an amount equal to 30 percent of the "General Assistance" funds it received under NSLP in the school year beginning July 1, 1980. In certain States whose per capita income is lower than the national average, the 30 percent match is proportionately lower. The required matching amounts for all States are listed in Report SL–1, "NSLP Section 4 Multiplication Factors by State," which is available from FNS. States use a number of methods to apply State-appropriated funds toward the matching requirement. For example, they may (1) disburse such funds *directly* to SFAs, generally on a per-lunch basis; (2) pay bills that SFAs would otherwise have had to pay themselves (such as FICA payments for school food service workers); and/or (3) track State-appropriated funds that SFAs have *indirectly* applied to the program through transfers from their general funds to their school food service funds. (7 CFR 210.17)

Suggested Audit Procedures

- Obtain the SL–1 Report or equivalent information from FNS to determine the dollar amount the State must apply toward meeting the matching requirement.
- Test financial and related records to determine whether the State contributed the required amount (directly and/or indirectly).

D. Special Reporting Requirements

Compliance Requirement

Report of School Program Operations, FNS–10, is completed by the State agency for each month of operation to document the number of lunches and breakfasts served in schools under State agency oversight. It is submitted to the applicable FNS regional office. The data collected by the FNS–10 play a major role in determining the State agency's funding level. The actual participation data collected from this report are used by FNS to obtain current information necessary to make payments to the State agency's letter of credit and to plan for future levels of funding. An initial report, which may contain estimated participation figures, is due within 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. If any revisions occur to the data presented in the "90-day" report, they must be submitted by the last day of the quarter in which they are identified. However, the State agency must *immediately* submit a revised FNS–10 report to FNS if, at any time following the submission of the "90-day" report, identified changes to the data presented therein cause the State agency's level of funding to change by more than plus or minus 0.5 percent. A final closeout report is also required, in accordance with the FNS closeout schedule. (7 CFR 210.5, 210.8, 220.13)

Suggested Audit Procedures

- Select a sample of submitted reports. Inspect them for completeness.
- Trace data presented in selected reports to the supporting documentation (claims from SFAs, working papers, etc.) to determine whether all submitted reports are supported by documentation.
- Select a sample of claims submitted by SFAs. Trace the data on such claims to the FNS–10 reports submitted for the same months to determine whether all relevant data have been captured by submitted reports.

E. Special Tests and Provisions

There are no special tests or provisions.

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

10.557

I. PROGRAM OBJECTIVES

The objective of the Special Supplemental Food Program for Women, Infants, and Children (WIC) is to provide supplemental nutritious food and nutrition education as an adjunct to good health care to low-income persons in critical periods of growth and development. Such persons include pregnant women, breastfeeding women, nonbreastfeeding postpartum women, infants, and children under age five.

II. PROGRAM PROCEDURES

Grants are made to State health agencies, Indian Tribal governments, or organizations treated as States and recognized by the Department of the Interior to carry out the objectives stated in section I, above. Each State agency's grant has two components: funding for the cost of supplemental foods provided to participants and funding for nonfood program benefits (nutrition education, etc.) and program administration. Most State agencies execute agreements with local agencies for the delivery of program services and allocate funds to these local agencies for their administrative and program services costs.

Supplemental foods are provided to participants in any one of the following three ways:

- Retail Purchase System (used by most States)—whereby negotiable food instruments are issued directly to individuals, and the individuals exchange them for authorized supplemental foods at retail stores. Two types of food instruments are used: vouchers and checks. In a voucher system, the vendor submits the voucher directly to the State agency for payment; in a check system, the vendors deposit checks to their bank accounts, and the banks are reimbursed by the State.
- Direct Distribution (used only in Mssissippi)—whereby the State agency purchases supplemental foods in bulk and issues them to participants at designated distribution points.
- Home Delivery—whereby contractural arrangements with dairies provide for the delivery of supplemental foods directly to participants' homes.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements *(State and Local Agency Levels)*

Funds allocated to a State agency for food must be expended to purchase supplemental foods for participants or to redeem food instruments issued for that purpose. Funds allocated for administration and program services must be used for the costs incurred by the State or local government in providing nutrition education and other program services and in administering the program.

There are two exceptions to the preceding rules. Funds allocated for costs of administration and program services but not needed for such costs may be applied to food costs. (7 CFR 246.14(a)) Funds allocated for food costs may be applied to administrative and program services costs if such application is provided under a cost containment initiative approved by FNS. (7 CFR 246.16(g))

Suggested Audit Procedures

- Review and evaluate the disbursing agency's procedures for (1) safeguarding and account-

ing for unissued food instruments, (2) controlling the issuance of food instruments to participants, (3) monitoring redeemed food instruments to ensure that amounts disbursed to vendors are proper, (4) reconciling food instruments issued with food instruments redeemed, and (5) following up instances of vendor or participant abuse to recover misused program funds and to prevent recurrences. Determine whether these procedures are being followed.

- Review and evaluate the disbursing agency's procedures (1) for authorizing the disbursement of administrative/program services funds, and (2) in the case of the State agency, for instituting claims against local agencies to recover administrative/program services funds not needed or improperly used. Determine whether these procedures are being followed.
- Test expenditures for food and for administrative/program services, respectively.

B. Eligibility

***Compliance Requirement** (State Agency Level)*

A participating *local agency* must be a public or private nonprofit health or human services agency; a service unit of the Indian Health Service; an Indian tribe, band, or group recognized by the Department of the Interior; or an inter-tribal council or group that is an authorized representative of such Indian tribes, bands, or groups. In addition, it must (1) refer participants to appropriate health services, (2) implement a food delivery system prescribed by the State agency, (3) have the capability to perform certification procedures specified for the WIC Program, (4) provide nutrition education, (5) maintain adequate records on certification and program funds received and expended, and (6) have a current agreement with the State agency to operate the program. (7 CFR 246.6)

Suggested Audit Procedures

- Review the State agency's procedure for defining local agency eligibility to determine whether it is being followed.
- Test files on selected local agencies to determine whether they meet the eligibility criteria.

***Compliance Requirements** (Local Level)*

Eligibility for WIC Program participation is based on three tests:

- Categorical—The applicant must be a pregnant woman, breastfeeding or non-breastfeeding postpartum woman, an infant, or a child under age five. (7 CFR 246.7(b))
- Income—The applicant's family income must fall below the State-provided income standard. (7 CFR 246.7(c))
- Nutritional Risk—The applicant must be certified by a competent professional authority to be at nutritional risk; that is, in need of the supplemental foods provided through the program. The program regulations define a competent professional authority to include the following classes of persons on the staff of a local agency: (1) physicians; (2) nutritionists (bachelor's or master's degree in nutritional sciences, community nutrition, clinical nutrition, dietetics, public health nutrition or home economics with emphasis in nutrition); (3) dietitians; (4) registered nurses; (5) physicians' assistants (certified by the National Committee on Certification of Physicians' Assistants or by the State medical certifying authority); or (6) State or local medically trained health officials. This definition also applies to an individual who is not on the staff of the local agency but who is qualified to provide data on which nutritional risk determinations are made by a competent professional authority on the staff of a local agency. (7 CFR 246.7(d))

Suggested Audit Procedures

- Review and evaluate the procedures for determining participant eligibility.
- Examine records for selected participants to determine whether the prescribed procedures are being followed.
- Ascertain whether nutritional risk determinations are made only by persons meeting the definition of "Competent Professional Authority." (7 CFR 246.2)

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement *(State Level)*

The WIC Monthly Financial and Program Status Report, FNS–498 is used to report (1) obligations and outlays of Federal grant funds for food costs and for administrative and program services costs, and (2) the number of persons in each category (women, infants, and children) participating in the program during the report month. The report is due in the applicable FNS regional office 30 days following the close of the report month. Each State agency is also required to submit an annual SF–269, Financial Status Report. The State agency submits an SF–269, Financial Status Report, to initiate the annual closeout of its WIC Program grant.

Suggested Audit Procedures

- Select a sample of submitted FNS–498 reports on file at the State agency. Inspect them for completeness.
- Trace data from the selected reports to the supporting documentation (claims submitted by local agencies, outputs of the State agency's food delivery system, working papers, etc.) to determine whether all data presented in submitted reports are corroborated by documentation.
- Select a sample of local agency claims. Trace data from the claims, from the food delivery system, and from other sources to the FNS–498 reports for the same report months to determine whether all data for each month had been captured by submitted reports.

Compliance Requirement *(Local Level)*

Each local agency must submit to the State agency a monthly claim identifying its program costs. (7 CFR 246.16(c))

Suggested Audit Procedures

- Review and evaluate the local agency's procedure for preparing and submitting its monthly claim.
- Verify entries on selected claims to the supporting documentation.

E. Special Tests and Provisions

Compliance Requirement *(State Level)*

Each fiscal year, the State agency must ensure that amounts spent on nutrition education equal or exceed the lesser of (1) one-sixth of its administrative and program services expenditures or (2) one-sixth of the administrative and program services component of its Federal WIC grant.

Suggested Audit Procedures

- Review and evaluate the methods used by the State agency to identify expenditures for nutrition education.
- Test expenditures and related records.
- Ascertain the amount needed to satisfy the State agency's nutrition education requirement, and determine whether the requirement has been met.

CHILD AND ADULT CARE FOOD PROGRAM

10.558

I. PROGRAM OBJECTIVES

The objective of the Child Care Food Program is to assist States to initiate, maintain, or expand nonprofit food service programs for children and other eligible persons in nonresidential child care or adult day care (ADC) institutions.

II. PROGRAM PROCEDURES

FNS generally administers this program through grants to State agencies, generally State educational agencies. The State agencies, in turn, enter into agreements with local institutions for the operation of the program. FNS furnishes program funds to State agencies by letter of credit. The State agency's funding level is the product obtained by multiplying the number of meals served under the program, of each category and type, by a corresponding payment rate (called the "national average payment factor"). State agencies use these funds to reimburse institutions under their oversight for meals served and in certain cases, administrative costs. In addition to cash assistance, FNS furnishes donated foods, or cash in lieu thereof, to States on the basis of the projected numbers of lunches and suppers to be served in participating institutions. State agencies distribute such commodities (or the cash in lieu) to institutions on the basis of annually adjusted per-meal values.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- Four types of meal service are authorized in the program: breakfasts, lunches, supplements, and suppers. The agreement between an institution and the State agency specifies which of these types the institution will serve. Subject to the agreement, an institution may receive reimbursement payments for any two of the three principal meal services (breakfast, lunch, or supper) plus one supplement for each child in attendance each day of operation.
- All meals that an institution reports to the State agency for reimbursement must (1) be authorized in the institution's agreement with the State agency, (2) contain the food components prescribed by program regulations, (3) be supported by accurate meal counts and records, and (4) be served to eligible persons. (See "Recipient Eligibility," below.) (7 CFR 226.2, 226.15(e), 226.20(a))
- If authorized in its agreement with the State agency, an institution may receive reimbursement payments for administrative costs relating to the program. Reimbursement payments claimed for such costs must (1) not exceed amounts approved in the agreement, (2) be supported by source document and other records, and (3) be for items that conform to the allowable cost rules described in the General Requirements section of this compliance supplement.

Suggested Audit Procedures *(State Level)*

- Examine the system used by the State agency to process institution claims for reimbursement, and determine whether it contains controls providing reasonable assurance that institutions will not be paid:
  - For meals that (1) had not been authorized in the institution's agreement with the State agency, (2) had not met meal component requirements, (3) had been based on inaccurate meal counts, or (4) had been served to persons ineligible for

the program or for the category of meal (paid, free, or reduced price) claimed; or

— For administrative costs that had not been authorized in the agreement and/or had not conformed to allowable cost rules described in the General Requirements section of this compliance supplement.

- Select a sample of reimbursement claims on file at the State agency. Inspect the claims and related documents (such as agreements with the institutions, reports of program reviews performed, and so forth) and determine whether the State agency's prescribed procedures are being followed.

Suggested Audit Procedure *(Local Level)*

- Examine the institution's procedures for preparing claims for reimbursement. Determine whether such procecures contain controls providing reasonable assurance that all meals reported to the State agency for reimbursement (1) are of types authorized in the agreement, (2) meet meal component requirements, (3) are based on accurate counts, and (4) are served to eligible persons. Also determine whether the procedures provide reasonable assurance that any administrative costs claimed for reimbursement (1) had been incurred for program purposes, (2) had been authorized in the agreement, and (3) conformed to allowable cost rules.

B. Eligibility

Compliance Requirement *(Institutional Eligibility)*

The State agency may disburse program funds only to public and nonprofit private child care centers and day care home sponsors, to proprietary Title XX child care centers, and to ADC centers. The State agency must make the program available to any such institution that applies. (7 CFR 226.2, 226.4, 226.6, 226.15–19)

Suggested Audit Procedures *(State Level)*

- Examine the State agency's prescribed procedures for processing institution applications to operate the program. Determine whether such procedures provide reasonable assurance that only eligible institutions will be accepted. If the State agency has any agreements with ADC centers, it will be necessary to obtain from FNS the current policy on ADC eligibility to perform these procedures. (7 CFR 226.6)

- Select a sample of State agency files on institutions currently operating the program. Inspect them to determine whether the State agency's prescribed procedures are being followed.

Suggested Audit Procedure *(Local Level)*

Inspect documents on file at the institution to determine whether it is eligible to operate the program. Such documents may include notification of tax-exempt status issued by the Internal Revenue Service, licenses issued by applicable regulatory agencies, etc. (7 CFR 226.15)

Compliance Requirements *(Recipient Eligibility)*

- The following classes of persons enrolled in eligible institutions are eligible to receive meals under the program (1) any person who has not reached his/her 13th birthday, (2) any dependent of migrant farm workers who has not reached his/her 16th birthday, and (3) a physically or mentally handicapped person (as defined by the State) of any age enrolled in an eligible child care facility, the majority of whose enrollment consists of persons 18 years of age and under. (7 CFR 226.2)

- To qualify a person for meals served free or at reduced price under the program, the person's family must submit an application to the institution. The application must be approved and maintained on file. The application establishes that the person's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by FNS. In family day care homes, applications must be filed only for the provider's children.

Suggested Audit Procedure *(State Level)*

Obtain the current family size/income guidelines published by FNS. Inspect the income eligibility standards issued by the State agency, and determine whether such standards conform to the FNS guidelines.

Suggested Audit Procedures *(Local Level)*

- Examine the institution's procedures for processing applications for free and reduced price meals. Determine whether the proce-

dures provide reasonable assurance that only persons meeting the income eligibility standards issued by the State agency will be approved to receive meals free or at reduced price. To perform this procedure, it will be necessary to obtain the income eligibility standards from the State agency.

- Select a sample of applications on file at the institution. Inspect them, and determine whether the institution's prescribed procedures for processing applications are being followed.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

Report of Child Care Food Program, FNS–44 is completed by the State agency for each month of operations to document the number of meals served in institutions under the State agency's oversight. It is submitted to the applicable FNS regional office. The data collected by FNS–44 play a major role in determining the State agency's funding level. The actual participation data collected from this report are used by FNS to obtain current information necessary to make payments to the State agency's letter of credit and to plan for future levels of funding. An initial report, which may contain estimated participation figures, is due within 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. If any revisions occur to the data presented in the "90-day" report, they must be submitted by the last day of the quarter in which they are identified. However, the State agency must immediately submit a revised report to FNS if at any time following the submission of the "90-day" report, identified changes to the data presented therein cause the State agency's level of funding to change by more than plus or minus 0.5 percent. A final closeout report is also required in accordance with the FNS closeout schedule. (7 CFR 226.7)

Suggested Audit Procedures

- Select a sample of submitted reports. Inspect them for completeness.
- Trace data presented in selected reports to the supporting documentation (claims from institutions, working papers, etc.), and determine that all submitted reports are supported by documentation.
- Select a sample of claims submitted by institutions. Trace the data on such claims to the FNS–44 reports submitted for the same months, and determine that all relevant data had been captured by submitted reports.

E. Special Tests and Provisions

There are no special tests or provisions.

STATE ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION

10.560

I. PROGRAM OBJECTIVES

Funds are made available under this program to assist State agencies in meeting the costs of administering NSLP (10.555), the SBP (10.553), the Special Milk Program for Children (10.556), the Child and Adult Day Care Food Program (10.558), and the distribution of donated foods to schools and child care institutions under the Food Distribution Program (10.550).

II. PROGRAM PROCEDURES

Each fiscal year, FNS allocates State Administrative Expense (SAE) funds to State agencies administering the program(s) identified above, according to a formula described in 7 CFR 235. As a prerequisite to receiving these funds, the State agency must submit an SAE plan to FNS. Approval of the plan qualifies the State agency to receive an SAE grant.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed and Unallowed.

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility.

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The State agency's eligibility to receive SAE funds is contingent upon its expending funds from State sources for the administration of NSLP, SBP, Special Milk Program for Children, and the Child and Adult Day Care Food Program. Each fiscal year, the State agency's expenditure of State funds for this purpose must not be less than the amount expended or obligated for such purpose in the Federal fiscal year ended September 30, 1977.

Suggested Audit Procedure

Obtain from FNS the dollar amount of State funding required to meet the State agency's level-of-effort requirement. Test financial and related records, and determine whether the State agency expended the required amount of State funds for the purpose(s) outlined above.

D. Special Reporting Requirements

The auditor is not expected to test for reporting requirements.

E. Special Tests and Provisions

Compliance Requirements

- Funds made available under the SAE program must be used for the costs of administering the programs identified above. Such administrative costs may include (1) the salaries, benefits, and travel expenses for State agency staff engaged in such activities as furnishing training and technical assistance to local level program operators, performing reviews and other oversight activities, and carrying out the general administrative functions of the State agency, (2) acquisition of office equipment and other capital assets, (3) acquisition of automated data processing systems and services, and (4) the cost of printing and mailing printed matter relating to the programs, etc. FNS must approve in the SAE plan the specific administrative cost items to which the State

agency applies SAE funds and the functions or activities that these costs will support.

- The State agency must use SAE funds in accordance with the allowable cost rules described in the General Requirements portion of this compliance supplement.
- State agency personnel funded in whole or in part with SAE funds must meet the professional qualifications and be paid at the salary scales of State-funded personnel in positions of comparable difficulty and responsibility.

Suggested Audit Procedures

- Inspect the current, approved SAE plan. Test financial and related records, and determine whether the State agency used its SAE funds for purposes set forth in the plan.
- Obtain position descriptions and salaries of the State agency's SAE-funded and State-funded staff, and determine whether SAE-funded and State-funded staff in positions of comparable difficulty and responsibility are being paid at the same rates.
- See also "Cost Principles" in the "General Requirements" portion of this compliance supplement.

STATE ADMINISTRATIVE MATCHING GRANTS FOR THE FOOD STAMP PROGRAM

10.561

I. PROGRAM OBJECTIVES

FNS State Administrative Matching Grants for the Food Stamp Program (FSP) provide matching funds to State agencies for costs incurred in the administration of the FSP.

II. PROGRAM PROCEDURES

State agencies must adhere to FNS requirements for the management of administrative funds and principles for claiming costs of FSP activities in order for payments to be made for costs incurred for administration of the FSP.

States are required to submit a budget to FNS for approval each fiscal year. Administrative funds are provided based on the approved budget.

FNS pays to State agencies 50 percent of allowable costs of administering the program, 75 percent of the costs of investigating and prosecuting fraud, and 75 percent of the costs of developing and installing an approved automated data processing (ADP) system.

COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable services.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The State is required to pay 50 percent of the costs of administering the program, 25 percent of the costs of investigating and prosecuting fraud, and 25 percent of the costs of developing and installing an appraoved ADP system. Costs of administering the program and investigating and prosecuting fraud may include (1) salaries, benefits, and travel expenses of State agency personnel; (2) audit costs; (3) acquisition cost of office equipment and other capital assets; (4) depreciation or use allowance on capital assets purchased wholly with non-Federal funds; (5) the rental cost of office space; and (6) the cost of printing and mailing program-related materials, etc. This list is not all-inclusive; any item of cost that conforms to the cost principles described in the "General Requirements" portion of this compliance supplement and supports administration of the Food Stamp Program may be assigned to that program. State agencies must separately identify administrative costs that support employment and training (E&T) activities. Salaries and other direct costs are frequently allocated to the program under an approved cost allocation plan. Indirect costs may be assigned to the program only through an approved indirect cost plan. (7 CFR 277.4, 277.15, 277.18(e))

Suggested Audit Procedures

- Ascertain the amount reported as total administrative costs from the Financial Status Report (SF–269) and test supporting documentation to assure that charges are appropriate.
- Determine if administrative costs, as defined, were charged to the FSP according to the approved cost allocation plan and that the matching requirement was met.
- Determine if claims for enhanced funding for ADP system development or installation are

covered by an FNS-approved advance planning document.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

There are no special tests or provisions.

NUTRITION ASSISTANCE PROGRAM FOR PUERTO RICO

10.566

I. PROGRAM OBJECTIVES

The objectives of the Puerto Rico Nutrition Assistance Program are to help needy residents of Puerto Rico meet their nutritional needs.

II. PROGRAM PROCEDURES

Participating households receive supplemental income in the form of checks that are issued up to twice monthly. The amount of the benefit payment depends on the household's characteristics, financial circumstances, and the funds available for distribution. The Commonwealth of Puerto Rico establishes the eligibility and benefit levels for the program. Funds for the program are appropriated annually. FNS provides an annual grant to the Department of Social Services of the Commonwealth of Puerto Rico to cover the full cost of program benefits and 50 percent of the costs of administering the program.

In addition, a portion of the Nutrition Assistance Program grant funds may be used for special projects that are likely to improve or stimulate agriculture food production and food distribution.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

FNS provides funding to the Commonwealth of Puerto Rico for the Nutrition Assistance Program based on budget estimates provided to FNS on an annual basis. Payments received by the Commonwealth for a fiscal year may not exceed the total amount authorized for the grant or the total cost for the Nutrition Assistance Program eligible for funding, whichever is less, for that fiscal year. Funds for payments for any prior fiscal year expenditures must be claimed against the funding for that fiscal year. (7 CFR 285.2)

Suggested Audit Procedure

Review State agency records to determine whether administrative cost claims appropriately reflect allowable charges for a given fiscal year.

D. Special Reporting Requirements

The auditor is not expected to test for reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

Within 120 days of the end of each fiscal year, the Commonwealth of Puerto Rico must provide FNS with a statement of whether the grant funds received for that fiscal year exceed the valid obligations made that year for which payment is authorized and, if so, by how much. (7 CFR 285.6)

Suggested Audit Procedure

Review above statement and supporting documents and records to determine the accuracy of the stated amounts of any excess funds.

TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM (ADMINISTRATIVE COST)

10.568

I. PROGRAM OBJECTIVES

The objectives of the Temporary Emergency Food Assistance Program (TEFAP) are to provide surplus commodities to low-income households and to help reduce inventories of commodities acquired under surplus removal or price support legislation.

II. PROGRAM PROCEDURES

USDA makes surplus commodities available to designated State agencies, such as State departments of agriculture, under TEFAP and the Food Distribution Program, for distribution to approved local service outlets called "emergency feeding organizations" (EFOs). EFOs distribute the commodities to households that have been determined eligible under criteria set by the State agency. Households are not charged for the commodities, and the donated commodities may not be sold, exchanged or otherwise disposed of without the prior approval of USDA. Within USDA, FNS administers the program. FNS makes cash grants to State agencies to help defray the costs of storing and distributing commodities made available under TEFAP.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Funds provided by FNS must be used by State agencies and EFOs for costs incurred in the storage and distribution of all commodities they receive for distribution to households under TEFAP. This may include costs of distributing commodities received from sources other than USDA. Funds may be applied to items that support the following functions: transporting, storing, handling, and distributing the commodities; determining, verifying, and documenting households' eligibility to receive commodities; publishing announcements of times and locations of distribution; and recordkeeping, auditing, and other administrative procedures. Funds may support the distribution of commodities received from USDA and from other sources.

Suggested Audit Procedure

Test financial and related records to determine whether Federal grant funds had been used for the purposes outlined above.

B. Eligibility

Compliance Requirements

- Before furnishing commodities and cash assistance to an EFO, the State agency must determine that it is eligible to operate the program and enter into a written agreement with it. (7 CFR 251.5(a)) Such an agreement commits EFO to receive commodities from the State agency for the purpose of providing nutrition assistance to relieve situations of emergency and distress through the provision of food to needy persons, including low-income and unemployed persons. Organizations eligible to enter into such agreements include food banks, hunger centers, soup kitchens, and other public and nonprofit private organizations
- Commodities are to be provided only to those households meeting the eligibility criteria established by the State agency. These criteria are set forth in the State agency's annual distribution plan, which is approved by FNS. They include income-based standards and methods by which households

may demonstrate their eligibility under such standards. (7 CFR 251.5(b))

Suggested Audit Procedures

- At the State agency level, examine the State agency's procedures for distributing donated commodities to determine whether they provide reasonable assurance that commodities are distributed only to organizations covered by current agreements with the State agency.
- At the EFO level, inspect records of EFOs to determine whether an agreement had been made between the State agency and the EFO for distribution of donated commodities.
- At the EFO level, inspect records to determine whether EFO has issued commodities only to households meeting the eligibility criteria set forth in the State agency's distribution plan. Determine through observation, inquiry, and inspection of records whether the procedures the EFO uses to make eligibility determinations comply with the State distribution plan and with the EFO's agreement with the State agency.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- The State agency must match each dollar of its Federal cash grant applied to State-level storage and distribution costs with one dollar from State sources. Federal grant funds disbursed to EFOs or used for costs incurred on behalf of EFOs need not be matched. Eligible State sources include State-appropriated funds, the fair market value of State-owned property, and cash or property donated to the State agency by third parties. (7 CFR 251.9)
- If a State uses its own funds to provide commodities or services to organizations receiving funds or services under section 214(i) of the TEFAP Act as amended, the State shall not diminish the level of support it provides to such organizations or reduce the amount of funds available for other nutrition programs in the State in each fiscal year.

Suggested Audit Procedures

- Inspect the State agency's distribution plan to identify the resources the State agency committed toward meeting the matching requirement.
- Recalculate the amount needed to meet the matching requirement. Test financial and related records to determine whether the requirement has been met.
- Determine the aggregate amount of funding from State sources for food distribution and other nutrition programs for the previous and current years to determine and the State had not reduced its support for such programs.

D. Special Reporting Requirements

Compliance Requirement

[FNS is currently clearing an FNS form, "Report of Storage and Distribution Costs," for use by State agencies in reporting expenditures against their TEFAP cash grants.]

Also see the following sections of this supplement:

- Food Distribution Program (10.550)
- General Requirements

E. Special Tests and Provisions

Compliance Requirements

- EFOs are required to maintain controls over the receipt, disposal, and inventory of commodities received from the State agency. (7 CFR 251.10(a))
- The State agency must apply not less than 40 percent of its Federal TEFAP cash grant to costs incurred by or on behalf of EFOs. The State agency may meet this requirement by making cash advances or reimbursement payments to EFOs, and/or by directly paying bills that the EFOs would have had to pay if the State agency had not done so on their behalf. (7 CFR 251.8(d))

Suggested Audit Procedures

- At the EFO level, determine through observation, inquiry, and inspection of inventory records and stocks of commodities whether the EFO's system of accounting for commodities received reduces to a relatively low

level the risk of loss, destruction, or misuse of the commodities.

- At the State level, recalculate the portion of the State agency's Federal cash grant that it must apply to costs incurred by or on behalf of EFOs. Test financial and related records to determine whether the State agency applied this amount to such costs.

Section B. DEPARTMENT OF COMMERCE

ECONOMIC DEVELOPMENT—GRANTS AND LOANS FOR PUBLIC WORKS AND DEVELOPMENT FACILITIES

11.300

I. PROGRAM OBJECTIVES

The objectives of the Economic Development—Grants and Loans for Public Works and Development Facilities Program are to improve opportunities for the successful establishment or expansion of industrial or commercial plants or facilities, assist in the creation of additional long-term employment opportunities, and benefit the long-term unemployed and members of low-income families.

II. PROGRAM PROCEDURES

The program is offered by the Economic Development Administration (EDA) to States, cities, counties, tribal governments, and other political subdivisions, and private or public nonprofit organizations or associations representing a redevelopment area. The program operates through the provision of grants, generally for between 50 and 80 percent of total project cost (up to 100 percent for selected project categories and Indian tribes), and loans of up to 100 percent of project costs, or a combination of grants and loans, for approved projects for public works, public service, or development facilities, including related essential machinery and equipment. Each recipient of financial assistance is expected to administer the assistance received in accordance with the current edition of the EDA publication, "Requirements for Approved Projects," and the applicable regulations of EDA.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

Unless otherwise specified in the special conditions of the grant or loan, there are no special restrictions on the types of services allowed. (13 Code of Federal Regulations (CFR) 305.98(a))

Suggested Audit Procedures

- Review the grant or loan agreement, and determine if there are special restrictions.
- Test expenditure and related records.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The basic grant may be up to 50 percent of the project cost. Severely depressed areas that cannot match Federal funds may receive supplementary grants to bring the Federal contribution up to 80 percent, and up to 100 percent if the State or political subdivision can demonstrate exhaustion of their effective taxing and borrowing capacity. Additionally, projects in redevelopment areas located within designated economic development districts may, subject to either the 80 or 100 percent maximum Federal grant limit, be eligible for a 10 percent bonus. The specific matching requirements are set forth in the grant agreement. (13 CFR 305.5, 305.6)

Suggested Audit Procedures

- Review the grant agreement and ascertain total costs.
- Determine amount and source of grantee funds.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

Interest paid on funds borrowed to pay project costs during the construction period and during the subsequent development period may be authorized by EDA as an eligible project cost. (13 CFR 305.70)

- Where authorized, the interest on construction period loans will normally be an allowable cost for up to 90 days beyond project acceptance by EDA. (EDA Requirements for Approved Projects, 7th Edition, Exhibit F, 1.10.c)
- Normally, the interest rate for construction financing will be considered acceptable if the interest cost does not greatly exceed the current market rate of interest for quality short-term investments, that is, the interest rate for prime commercial loans. (EDA Requirements for Approved Projects, 7th Edition, Exhibit F, Section I.3.A)
- The allowable amount of development period interest will be determined by EDA. (13 CFR 305.70(b))

Suggested Audit Procedures

- Review EDA's authorization and determine whether the interest expense claimed is in accordance with this authorization.
- Compare the interest rate with the prevailing rate for quality short-term loans, that is, the interest rate for prime commercial loans.

Section C. DEPARTMENT OF HEALTH AND HUMAN SERVICES

ADMINISTRATION FOR CHILDREN, YOUTH, AND FAMILIES

HEAD START

13.600

I. PROGRAM OBJECTIVES

The objectives of the Head Start Program are to provide comprehensive health, educational, nutritional, social and other services primarily to economically disadvantaged preschool children so that the children will attain overall social competence. Parents also participate in various decisionmaking processes related to the operation of the program.

II. PROGRAM PROCEDURES

Grants are made by the Administration for Children, Youth, and Families (ACYF) to community action agencies, limited purpose agencies, and units of local government, which operate the program and/or assign the activity to one or more delegate agencies identified in the grant application. Each grantee and delegate agency generally has several locations where the program is operated.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Allowable services include health (medical, dental, nutrition, and mental health), education, social services, parent involvement, use of volunteers, and career development for teachers, nonprofessional aides, and other staff members. (45 Code of Federal Regulations (CFR) 1304, B, C, D, E)

Suggested Audit Procedures

- Review and evaluate internal controls designed to ensure expenditures are made only for allowable services.
- Test expenditure and related records.

B. Eligibility

Compliance Requirement

Enrollment and attendance levels must adhere to the levels specified in the Notice of Financial Assistance Award. (Department of Health and Human Services (HHS) Enrollment and Attendance Policies in Head Start, *Federal Register*, Vol. 44, No. 214, pp. 63478–63481)

Suggested Audit Procedure

Examine enrollment and attendance records and compare enrollment to levels specified in the Notice of Financial Assistance Award.

Compliance Requirements

- At least 90 percent of the enrollees must come from families whose income is below the official Federal poverty guidelines or who are receiving public assistance. (45 CFR 1305.4, 1305.2(b)(2))
- The enrollment must consist of children between the age of three and the age of compulsory school attendance unless the grant award provides otherwise. (45 CFR 1305.3)

Suggested Audit Procedures

- Review and evaluate internal controls used to determine eligibility.
- Review selected participant and applicant files and determine adherence to the prescribed system.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- The Head Start grantee is required to contribute 20 percent of the cost of the program through cash or in-kind contributions, unless a lesser amount has been approved by HHS. (45 CFR 1301.20, 1301.21)
- The costs of developing and administering a Head Start program shall not exceed 15 percent of the total program costs unless a waiver has been granted. Development and administrative costs include, but are not limited to, the cost of organization-wide planning coordination and general purpose direction, accounting and auditing, purchasing and personnel functions, and the cost of operating and maintaining space for these purposes. (Public Law 97–35, Subchapter B, Section 644(b); 45 CFR 1301.32; ACYF–IM–83–9).

Suggested Audit Procedures

- Determine if the amount provided by the grantee from other than Federal resources meets or exceeds Federal matching requirements.
- Test expenditure and related records by listing all development and administrative costs, all program costs, all approved in-kind contributions, and determining the percentage of development and administrative costs in relation to total program costs.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

There must be evidence of compliance with State and local licensing facility standards.

SPECIAL PROGRAMS FOR THE AGING
TITLE III, PART B
GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS

13.633

I. PROGRAM OBJECTIVES

The objectives of Title III of the Older Americans Act of 1965, as amended, are to (1) help older persons secure and maintain maximum independence and dignity in a home environment, (2) remove barriers to independence for older persons, and (3) provide a continuum of care for the vulnerable elderly.

II. PROGRAM PROCEDURES

Funds are provided to States, in accordance with a predefined formula, upon submission of a State plan to the Commissioner on Aging in HHS. States then allocate funds to area agencies on aging which provide for the delivery of services based on a comprehensive services delivery plan for their respective planning and service areas.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types or Services Allowed and Unallowed

Compliance Requirement

The State agency must operate a statewide long-term care ombudsman program to investigate or resolve complaints made by or on behalf of the individuals who are residents of long-term care facilities. (42 U.S.C. 3024(d)(l)(B) 1989 Revision)

Suggested Audit Procedure

Ascertain that the State operates an ombudsman program on behalf of older individuals.

Compliance Requirement

A State agency or area agency may provide services directly only if the State agency decides that it is necessary to ensure the adequate provision of services. A State agency may provide services directly only if the State has been designated as a single planning and service area. (42 U.S.C. 3027(a)(10) 1989 Revision)

Suggested Audit Procedure

Ascertain that the State determined whether it was necessary for an area agency to provide services directly.

Compliance Requirements

- The area agency may award social services funds to public and nonprofit agencies to acquire, alter, lease, renovate, or construct a facility for use as a multipurpose senior center. Such awards may also be used to pay the costs of professional and technical personnel to operate the center.
- Funds used for the construction of senior centers require the prior approval of the State agency. Newly constructed senior centers must be used as senior centers for at least 20 years after completion of construction. Acquired facilities must be used as a senior center for at least 10 years after completion of the acquisition. Senior centers may not be used for sectarian instruction or religious worship. (42 U.S.C 3027(a)(14) 1989 Revision)

Suggested Audit Procedures

- Review expenditure and other records for

indications of construction or acquisition of senior center facilities.

- Determine whether the State gave approval for construction of centers.
- Consider visiting facilities constructed or acquired with current or prior year funds and determine their use.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

Not more than 75 percent of the allotment for State agency administration may be used for the costs of administering the State plan. Not more than 10 percent of the combined allotments for social and nutrition services may be used by the State agency to pay not more than 75 percent of the cost of administering area plans. (42 U.S.C. 3024(d)(1)(A) 1989 Revision)

Suggested Audit Procedures

- Ascertain the amount of the allotments for State agency administration and social and nutrition services.
- Review financial reports and determine amounts expended for administering the State plan and area plans.
- Test expenditure and related records.

Compliance Requirement

The grantee must pay for at least 15 percent of the costs of social and nutritional services; 5 percent of the costs must be provided by the State in the form of allowable State costs. At least 25 percent of the non-Federal share must be provided by State or local public agencies in the form of allowable costs or by local public agencies as third-party in-kind contributions. (42 U.S.C. 3024(d)(1)(D); 42 U.S.C. 3029(b) 1989 Revision)

Suggested Audit Procedures

- Ascertain the amounts expended for social and nutrition services. Review the financial records and determine the amount and source of the matching funds.
- Review and evaluate procedures for valuation of contributions.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirements

- State agencies shall conduct evaluations of each area agency. (45 CFR 1321.39(a), 45 CFR 1321(a)(3)(4))
- Area agencies must provide technical assistance, monitor on-going projects, and periodically evaluate the performance of all service providers. (42 U.S.C. 3026(a)(6)(A), (B); 45 CFR 1321.61)

Suggested Audit Procedure *(State Agency)*

Review and evaluate internal controls for monitoring and evaluating performance.

Suggested Audit Procedures *(Local Agency)*

Determine if technical assistance, monitoring, and evaluations were performed for selected area agencies, subgrantees, and/or contractors.

Compliance Requirement

Each service provider must offer older persons with an opportunity to voluntarily contribute toward the cost of the services they receive under Title III programs. Such contributions must be used to expand the provider's services to older persons. (45 CFR 1321.67)

Suggested Audit Procedure *(Local Agency)*

Review procedures for offering contribution opportunities and using contributions.

SPECIAL PROGRAMS FOR THE AGING
TITLE III, PART C
NUTRITION SERVICES

13.635

I. PROGRAM OBJECTIVES

The objective of the Special Programs for the Aging, Title III, Part C—Nutrition Services, is to provide older persons with low-cost nutritious meals, appropriate nutrition education, and other appropriate nutrition services. Meals may be served in a congregate setting or delivered to the home.

II. PROGRAM PROCEDURES

Funds are provided to the States for the delivery of nutrition services to persons age 60 years and older, following submission of a State plan, in accordance with a predefined formula. The States allocate the funds to public and private agencies that have submitted plans for approval to provide the meals and other services.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed and Unallowed

Compliance Requirement

Funds may be used for congregate and home-delivered meals that meet one-third of the minimum daily recommended dietary allowances for the elderly and are provided at least once per day, 5 or more days a week. (42 U.S.C. 3030(e)(f) 1989 Revision)

Suggested Audit Procedures

- Review systems for determining content and number of meals.
- Review files to determine whether there is adherence to the prescribed system.

Compliance Requirement

Services can be provided only by a subgrantee or contractor, unless the State agency decides that direct provision by the State or area agency is necessary to ensure adequate supply of services and approval is obtained from the Commissioner on Aging. (42 U.S.C. 3027(a)(10) 1989 Revision)

Suggested Audit Procedure

Identify organizations providing services and examine waivers for any State agency or area agency providing services directly.

Compliance Requirement

The State may without the approval of the Commissioner on Aging transfer up to 30 percent of the separate allotments received for congregate and home-delivered services between the allotments. (42 U.S.C. 3028(b)(4); 45 CFR 1321.45)

Suggested Audit Procedure

Test final grant awards and financial records, and ascertain whether funds have been transferred from one allotment to another, and the amount of any transfers.

B. Eligibility

Compliance Requirement *(Service Delivery Level)*

Only persons 60 years of age or older, their spouses (regardless of age), volunteers, disabled persons under 60 who reside in housing facilities occupied primarily by the elderly where congregate nutrition services are provided, and individuals with disabilities who reside at home with, and accompany older individuals who are eligi-

ble under this act, are eligible for congregate nutrition services. (Volunteers are persons providing free assistance to the nutrition service provider.) Persons age 60 or older who are homebound by reason of illness or incapacitating disability or otherwise isolated are eligible for home-delivered meals. Their spouses may be made eligible by the area agency. (42 U.S.C. 3027(a)(13)(A), 45 CFR 1321.69, 45 CFR 3121.17(f)(12))

Suggested Audit Procedures

- Review procedures for determining eligibility, including eligibility for home-delivered meals.
- Review selected participant files for adherence to prescribed procedures. (The auditor is not expected to test for age-related eligibility.)

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The State must spend no less of its own funds for meeting minimum matching requirements for services for the elderly than it did in the previous year. (45 CFR 1321.49)

Suggested Audit Procedure

Determine the amount of State funds expended for services for the elderly in the previous year and compare with current year's expenditures.

Compliance Requirement

The State agency must assure that at least 15 percent of costs are met with cash or in-kind contributions. One-third of the 15 percent share must be provided by the State. (42 U.S.C. 3024(d); 42 U.S.C. 3029(b)(2))

Suggested Audit Procedure

Review the agency's financial records and determine the program's total cost and the amount and nature of the non-Federal share and the State's share.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirements

- State agencies must evaluate each area agency. They must also periodically evaluate of activities and projects carried out under the State plan by grantees and sub-grantees. (45 CFR 1321.17(C); 1321.1(b))
- Area agencies must provide technical assistance, monitor ongoing projects, and periodically evaluate the performance of all service providers. (42 U.S.C. 3026(a)(6)(A), (B))

***Suggested Audit Procedure** (State Agency)*

Review and evaluate internal controls for monitoring and evaluating performance.

***Suggested Audit Procedure** (Local Agency)*

Determine if technical assistance, monitoring, and evaluations were performed for selected area agencies, subgrantees, and/or contractors.

***Compliance Requirement** (Service Delivery Level)*

Each service provider must provide each older person with an opportunity to contribute voluntarily to the cost of the services provided, and all such contributions must be used to expand the services of the provider, increase the number of meals served, and provide access, and/or other supportive services directly related to nutrition services. Service providers must establish appropriate procedures to safeguard and account for all contributions made by program beneficiaries. (45 CFR 1321.67)

Suggested Audit Procedure

Review procedures for providing contribution opportunities and using contributions.

FOSTER CARE—TITLE IV-E

13.658

I. PROGRAM OBJECTIVES

The objective of the Foster Care Program (Title IV–E of the Social Security Act, as amended) is to provide assistance on behalf of eligible children who need care away from their families in foster care and who are in the placement and care of the State agency administering the program.

II. PROGRAM PROCEDURES

Funds are obtained by the State to provide assistance in accordance with a State plan approved by HHS. The State uses the funds to pay for the care of children (1) eligible under Assistance to Families with Dependent Children (AFDC), (2) in need of foster care, and (3) in the care of the administering State agency or another public agency under agreements with the State agency.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- Allowable services include foster care maintenance, adoption assistance, training for foster care and adoption assistance, and administration of foster care and adoption assistance. (45 CFR 1356.21)
- Foster care maintenance payments can be made only for care in a foster family home of an individual and certain public or nonprofit child care institutions. (45 CFR 1356.60)
- Foster care maintenance and adoption assistance payments must be on behalf of clients who meet the eligibility requirements in Federal regulations.

Suggested Audit Procedures

- Review and evaluate the control systems to ensure that expenditures are made for allowable purposes.
- Test expenditure and related records.

B. Eligibility

Compliance Requirements

- *Eligibility—Foster Care (45 CFR 1356.60(a)(i)*
  - Foster care payments are allowable only if the foster child was removed by means of a judicial determination or a voluntary placement agreement. (42 U.S.C. 672 (a)(1)) If the removal was by judicial determination, the court action must have been initiated within 6 months of the child's removal from the home of a specified relative (42 U.S.C. 672 (a)(4)(B)) and must contain language to the effect that the child's remaining at home would be contrary to his/her welfare and that reasonable efforts have been made to prevent the removal. (42 U.S.C. 672 (a)(1)) If the removal had been by a voluntary placement agreement, it must be followed within 180 days by a judicial determination about the best interests of the child. (45 CFR 1356.30(b)) (42 U.S.C. 672 (e))
  - The child must also be AFDC eligible, that is, meet the State-established standard of need and be deprived of parental support of at least one parent, both at the time of removal and on a continuing basis. Unless the child was expected to graduate before his 19th birthday, eligibility ceases at the child's 18th birthday. (42 U.S.C. 672 (a))
  - The provider must be licensed by the proper State foster care licensing author-

ity. (42 U.S.C. 671 (a)(10); 42 U.S.C. 672 (c))

- *Eligibility—Adoption Assistance (45 CFR 1356.60 (a)(ii))*
  - — Adoption assistance payments are allowable only if the child is IV-E foster care eligible, AFDC eligible, or SSI eligible. (42 U.S.C. 572 (a)(2)(A)) In addition, the child must be a special-needs child whom the State has made efforts to have adopted without a subsidy. (42 U.S.C. 673 (c)) The agreement for the subsidy must have been signed before the final decree of adoption and must contain information concerning the amount and duration of the subsidy, the child's eligibility for services and medicaid, and must cover the child should he/she move out of State with the adoptive family (42 U.S.C. 675 (3)).

Suggested Audit Procedures

- Review and evaluate the control systems designed to ensure that payments are made on behalf of eligible clients.
- Test case files and related financial records to determine whether payments were made for eligible clients.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Recuirement

The State is required to participate at various rates in the costs of the program. (45 CFR 1356.60)

Suggested Audit Procedures

- Ascertain that the appropriate matching rates are applied for the amounts reported to the Federal Government.
- Determine if the costs used to match Federal funds are allowable as matching.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

The State may transfer funds from Title IV–E to Title IV–B. (45 CFR 1356.70)

Suggested Audit Procedure

Ascertain whether any transfer of funds between programs met Federal regulations.

SOCIAL SERVICES BLOCK GRANT (SOCIAL SERVICES)

13.667

I. PROGRAM OBJECTIVES

The objectives of the Social Services Block Grant are to provide funds to States for (1) achieving or maintaining economic self-support and self-sufficiency; (2) preventing or remedying neglect, abuse, or exploitation of children and adults, (3) preserving, rehabilitating, or reuniting families; (4) preventing or reducing inappropriate institutional care; and (5) securing referral or admission for institutional care when other forms of care are not appropriate or providing services to individuals in institutions.

II. PROGRAM PROCEDURES

Funds are obtained by the State in accordance with a predefined formula, upon submission of an intended use report to the Secretary of HHS.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to Federal statutory requirements, each State has the authority to issue rules consistent with Federal statutes and regulation. These rules should be reviewed before beginning the audit.

A. Types of Services Allowed or Unallowed

Compliance Requirement

Funds may be used for child care services; protective services for children and adults; services for children and adults in foster care; services related to the management and maintenance of the home; day care services for adults; transportation services; family planning services; training and related services; employment services; information, referral, and counseling services; the preparation and delivery of meals; health support that meets the special needs of children, the aged, the mentally retarded, the blind, the emotionally disturbed, the physically handicapped, and alcohol and drug addicts; administration (including planning and evaluation); personnel training and retraining directly related to the provision of those services; conferences or workshops; and training or retraining through grants to nonprofit organizations and technical assistance. (42 U.S.C. 1397(a))

Suggested Audit Procedures

- Review and evaluate controls designed to ensure grant funds are used only for allowable services.
- Test expenditures and related records.

Compliance Requirement

A State may transfer up to 10 percent of its allotment to block grants providing support for health services, health promotion and disease prevention activities, or low-income home energy assistance (or any combination of those activities). (42 U.S.C. 1397a)

Suggested Audit Procedure

Ascertain whether the amount and purposes of all transfers met block grant requirements.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

Prior to expenditure of funds, a report on the intended use of block grant funds, containing information on the types of activities to be supported and the categories or characteristics of individuals to be served, must be made public so that it facilitates comment. The report shall be revised as necessary during the year to reflect substantial changes. (42 U.S.C. 1397c)

Suggested Audit Procedures

- Review procedures for preparing the report and making it available for public comment.
- Obtain a copy of the report, and determine whether major assertions are supported.

Compliance Requirement

A report must be made public at least every 2 years which describes the purpose of expenditures, activities performed, and the extent to which funds were spent in a manner consistent with the intended use report. (42 U.S.C. 1397e (a))

Suggested Audit Procedures

- Obtain a copy of the report and determine whether major assertions are supported.
- Review controls for preparing the report and identify opportunities for public comment.

E. Special Tests and Provisions

Compliance Requirement

Funds for a fiscal year allotment must be expended in the same or succeeding fiscal year. (42 U.S.C. 1397a(C))

Suggested Audit Procedure

Review financial records to ensure that allotments were expended during the proper period.

MEDICAL ASSISTANCE PROGRAM (MEDICAID; TITLE XIX)

13.714

I. PROGRAM OBJECTIVES

The objective of the Medical Assistance Program (medicaid or Title XIX of the Social Security Act, as amended) is to provide payments for medical services provided to (1) cash assistance recipients, (2) members of certain mandatory and optional groups who do not receive cash assistance, and (3) in certain States, other medically needy, that is, individuals falling within one of the categories for which cash assistance is available but whose income or resources, while too high for eligibility for those programs, are insufficient to meet the costs of their medical care.

II. PROGRAM PROCEDURES

Funds are provided to the State to provide medical assistance in accordance with a State plan approved by the HHS. The State uses the funds to pay (1) participating medical service providers who submit claims for services rendered to eligible recipients and (2) State administrative costs. In certain States, county governments are required to pay part of the costs. In addition, in certain States, the counties determine the eligibility, and the counties are reimbursed for that service by the State in accordance with the approved State allocation plan.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- Funds can be used only for required services (42 CFR 440.10–50, 440.70, and 440.165 for the categorically needy; for medically needy 42 CFR 440.22) or optional services provided by institutions or entities, as specified in the approved State plan. Funds cannot be used for services not included in a State's approved medical assistance plan. States may also provide certain home and community-based services under provisions of waiver programs authorized under Section 1915(c) of the Social Security Act. (42 CFR 441.300–310)
- States must have a system that takes reasonable measures to identify medical services that are the legal obligation of liable third parties, such as private health or accident insurers, and exhaust such third-party resources before paying the related claims or seek reimbursement from the third parties where the liability is established after the claim is paid. (42 CFR 433.135–154)

Suggested Audit Procedures

- Review the approved State medical assistance plan and determine services to be provided.
- Review correspondence from the grantor agency to determine prior or pending disallowances and potential compliance issues identified by grantor agency reviews.
- Determine whether a claims processing assessment system (CPAS) has been established and operates independently of program operations, particularly of program managers. (CPAS may meet the definition of internal auditors on whose work an independent auditor may rely.)
- Analyze the results of CPAS for the period being examined, and determine the extent to which the claims processing errors are at-

tributable to payments for unallowable services or ineligible providers.

- Obtain the Quarterly Medicaid Statement of Expenditures reports for the period. Identify those types of services that have a material affect on the program.
- For those types of medical services identified as material, review and evaluate the internal controls that the entity uses to:
  - — Identify and deny payment of claims from ineligible providers.
  - — Identify and deny payment of claims for unallowable services.
  - — Establish rates, ensure rates are developed in accordance with the State plan, identify and deny payment of claims in excess of established rates, and make correct final settlements after interim payments.
- Review selected paid claims to determine that payment was made only to eligible providers, for eligible services, at allowable rates, and with adjustment for correct copayments after considering third-party liability
- Review the State internal controls to ascertain the existence of third-party liabilities and avoid or recover costs.
- Determine the status of the State's audits, prior or pending disallowances, and/or settlements with the selected providers.
- Compare selected providers' unaudited and unsettled cost reports with previously audited cost reports, and evaluate the possibility of significant overpayments or disallowances.

B. Eligibility

Compliance Requirement

The medicaid agency or its designees are required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan. (42 CFR 431.10)

Suggested Audit Procedure

Review and evaluate the controls established to ensure that payments were made only on behalf of eligible clients.

Compliance Requirements

- The State is required to operate a medicaid quality control (MQC) system (in accordance with requirements specified by Health Care Financing Administration (HCFAD in Medicaid Quality Control Manuals) which reviews the determinations of recipient eligibility made by State agencies (or by counties under delegation from the State) using statistical sampling methods to select recipients, review claims, and project the number and dollar impact of incorrect determinations. (42 CFR 431.800)
- The State must submit summary reports to HCFA on the results of MQC system sampling and review effort. Actions to correct errors and reduce their incidence must be taken, and the results of the corrective actions reported. (42 CFR 431.800)

Suggested Audit Procedures

- Determine whether a quality control function has been established and operates independently of program operations, particularly of program managers responsible for determinations of eligibility. (Quality control may meet the definition of internal auditors on whose work an independent auditor may rely.)
- Review and evaluate the procedures designed to ensure that the quality control function is performed and results are reported in accordance with Federal regulations.
- Compare the results of the HCFA review with the State's results, and ascertain the reasons for any significant differences.
- Obtain copies of submitted reports and review for completeness.
- Trace data in selected reports to supporting documentation.
- Review status of planned and reported corrective actions.
- Review and evaluate the State's procedures for overseeing local government operation of the program.

Compliance Requirement *(Applicable at the local level in States where local governments are responsible for determining medicaid eligibility for various classes of recipients)*

The local government determines eligibility in accordance with the State's approved medicaid

plan for various types of clients. (42 CFR 431.10(d))

Suggested Audit Procedures

- Review the State's approved medicaid plan and the required agreements between the State medicaid agency and the county to determine the role of the local government in determining eligibility.
- Review and evaluate the local government's internal controls for ensuring adherence to the agreement with the State. (See suggested audit procedures for Eligibility.)

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- The State is required to pay part of the costs of providing health care to the poor (42 CFR 433.10) and costs of administering the program (42 CFR 433.15), as specified in the regulations.
- The State is required to return identified provider overpayments to the program within specified timeframes, which may be prior to collection. (42 U.S.C. 1396(d)(2) (H))

Suggested Audit Procedures

- Ascertain that the appropriate matching rates are applied for the summary and detailed amounts reported on the Quarterly Expenditure Report (HCFA–64).
- Ascertain whether the costs claimed as matching are allowable as matching.
- Review and evaluate the entity's procedures, and determine if recoveries of overpayments to providers and other credits, such as escheated warrants, are returned promptly to the Federal Government.
- Test financial records and determine whether credits, such as overpayments to providers, were returned promptly to the Federal Government.

Compliance Requirement *(Applicable at the local level in States where local governments are responsible for determining medicaid eligibility for various classes of recipients)*

The local government determines medicaid eligibility for recipients, and its costs of performing these eligibility determinations are reimburseable by the State in accordance with the State's approved cost allocation plan. (45 CFR 431.10(d), 42 CFR 95 E)

Suggested Audit Procedures

- Review the agreements between the State medicaid agency and the county to determine the local government's role in defining eligibility and the method of reimbursement.
- Review and evaluate the local government's procedures for ensuring adherence to the cost allocation plan and the agreement with the State.
- Review selected local costs and determine whether there is adherence to the prescribed procedures.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement *(Applicable at the county level in States where the counties participate in the non-Federal share of the medicaid expenditures)*

The counties must pay for a portion of the medicaid expenditures in accordance with the approved State plan.

Suggested Audit Procedures

- Review the medicaid funding arrangements between the State and county governments to determine the extent that Federal fiscal sanctions and disallowances are passed to the county government.
- Determine whether fiscal sanctions or disallowances have been imposed by the Federal Government or passed to the county government.
- Review the disposition of the fiscal sanctions imposed by the Federal Government and the support for those sanctions passed to the county.

Compliance Requirement

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions (42 CFR 456).

Suggested Audit Procedures

- Evaluate the State's procedures for controling utilization.

- Test to determine the adherence to procedures designed to control utilization.
- Test to determine whether any institutions for mental disease were incorrectly classified as medicaid nursing homes to claim Federal reimbursement.
- Contact the regional office of the HCFA and inquire as to the status of the State's compliance with Section 1903(g) of the Social Security Act (Utilization Review Requirements).

Compliance Requirements

- Providers must meet the prescribed health and safety standards for hospitals and nursing homes. (42 CFR 405 J,K, 42 CFR 442)
- The State is responsible for certification of nursing home adherence to health and safety standards. (42 CFR 442)

Suggested Audit Procedures

- Review and evaluate the State's internal controls for ensuring that payments are made only to institutions that meet health and safety standards.
- For selected providers, review the State's records and determine whether certifications of standards of health and safety met Federal regulations.

Compliance Requirement

A State may obtain a waiver of statutory requirements to provide an array of home and community-based services that an individual needs to avoid institutionalization. (42 CFR 441 G)

Suggested Audit Procedures

- Review and evaluate the internal controls designed to ensure that the State operates the medicaid waiver program in compliance with Federal regulations and the State plan.
- Test selected transactions.

FAMILY SUPPORT PAYMENTS TO STATES—ASSISTANCE PAYMENTS

Aid to Families with Dependent Children (AFDC)

13.780

I. PROGRAM OBJECTIVES

The objectives of the AFDC Program are to (1) help States provide financial assistance to needy dependent children and their parents or relatives with whom they reside, (2) help needy individuals maintain and strengthen family life, and (3) help such parents or relatives attain self support and personal independence consistent with maintenance of continuing parental care and protection.

II. PROGRAM PROCEDURES

Grants are made to States under a plan approved by the Secretary of HHS to provide (1) cash payments for needy children meeting certain age requirements and parents, or other caretaker relatives, of a dependent child and, in certain situations, the parent's spouse; (2) certain services to recipients and applicants participating in employment search and to recipients in work programs; and (3) program administration. The State claims the Federal share of AFDC expenditures by presenting quarterly expenditure reports to HHS. In some cases, the State may delegate the operation of the program to local governments, which determine eligibility and are reimbursed by the State in accordance with the approved State allocation plan.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

Program funds are to be used to pay for:

- *Direct Financial Assistance*: Financial assistance for food, shelter, clothing, and other items of daily living recognized as necessary for eligible participants by each program. (45 CFR 206.10, 234.120, 233.10, 233.20; State plan approved under Title IV–A of the Social Security Act; 45 CFR 233.31–37; CFR 233.90, 233.100; 234.11, 234.60) (42 U.S.C. 602 and 603 1989 Revision)
- *Administration*:
  - Interviewing applicants, determining eligibility, and validating eligibility. (45 CFR 95 E, F; CFR 205.35–37, 205.150, 205.160; CFR 232.20, 233.31–52; 233.90, 233.100, 233.106; 42 U.S.C. 602, 603, 606, 607 1989 Revision)
  - Training State and local personnel who operate the program. (45 CFR 235.60–65; 42 U.S.C. Section 602 1989 Revision)
  - Personnel engaged in program direction and management. (45 CFR 205.30, 205.150, 95 E; 42 U.S.C. Section 603 1989 Revision)
- *Employment Experience*:
  - A Community Work Experience Program for AFDC recipients. (45 CFR 238; State Plan approved under Title IV–A; 42 U.S.C. Sections 602, 603, 609 1989 Revision)
  - A Work Supplementation Program for AFDC recipients. (45 CFR 239; State Plan approved under Title IV–A; 42 U.S.C. Sections 602, 603, 614 1989 Revision)
  - An Employment Search Program for AFDC applicants and recipients. (45 CFR 238, 239; State Plan approved under Title IV–A; 42 U.S.C. Sections 602, 603 1989 Revision)

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- *Emergency Assistance (Optional, separate part of State plan)*: Assistance during one 30-day period in 12 consecutive months to needy families in emergency or crisis situations to avoid destitution or to provide living arrangements, food, shelter, clothing, medical care, and transportation. (45 CFR 233.120(b)(3); State Plan approved under Title IV–A.)

Suggested Audit Procedures

- Review the approved plan and determine financial assistance and services provided by the State.
- Review the separate plan for emergency assistance, if appropriate.
- Review and evaluate internal controls designed to ensure that the identified financial assistance and services are provided to eligible participants.
- Test the expenditures and related records to determine whether only allowable expenditures were charged.
- Review correspondence from the grantor agency to determine prior or pending disallowances and potential compliance issues identified by the grantor agency.

Compliance Requirement *(Applicable for State-administered, local government operated programs)*

The administrative functions to be performed by the local government are specified in the approved State plan and State directives implementing the plan. (45 CFR 205.120)

Suggested Audit Procedures

- Obtain a copy of the approved State plan and implementing directives and determine the administrative functions to be performed by local governments.
- Review and evaluate state procedures for overseeing local government operation of the program.
- Determine the status of audits, prior or pending disallowances, and/or settlements with the selected local governments.
- Compare selected unaudited and unsettled cost reports with previously audited cost reports for local governments, and evaluate the possibility of significant overpayments or disallowances.

B. Eligibility

Compliance Requirements

- Individuals receiving aid must meet the eligibility requirements defined in the approved State plan. (45 CFR 233.10)
- The State is required to maintain a quality control process that (1) reviews the determinations made by the State (or local governments under delegation from the State) of recipient eligibility and authorized financial assistance payments and (2) computes, with statistical sampling methods, the number and dollar impact of incorrect determinations. (45 CFR 205.40)
- The State must dispose of and submit review findings on all active and negative sample items within 120 days after the end of each sample month. Corrective action plans for reducing error rates are required by February 15 of each year. Progress reports on the status of implemented corrective actions and their effectiveness are required by August 15 of each year. (45 CFR 205.40(b)(2))

Suggested Audit Procedures

- Determine whether a quality control function has been established and operates independently of program operations, particularly of program managers responsible for determinations of eligibility. (Quality control may meet the definition of internal auditors on whose work an independent auditor may rely.)
- Review and evaluate the procedures designed to ensure that the quality control function is performed and results are reported in accordance with Federal regulations.
- Compare the results of the Federal review with the State's results, and ascertain the reasons for any significant differences.
- Obtain copies of submitted reports and review for completeness.
- Trace data in selected reports to supporting documentation.
- Review status of planned and reported corrective actions.
- Review and evaluate the State's procedures for overseeing local government operation of the program.

Compliance Requirement *(Applicable at the local level in States where the counties are responsible for determining AFDC eligibility)*

The county determines eligibility in accordance with the State's approved AFDC plan, and the costs are charged to the AFDC program in accordance with the State's approved cost allocation plan. (45 CFR 205.120; CFR 95.507)

Suggested Audit Procedures

- Review the State's approved AFDC plan and the State's implementing directives to determine the role of the local government in defining eligibility.
- Review and evaluate the local government's internal controls for ensuring adherence to the State directives.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- The State must pay a share of payments to recipients. (The Federal share is published periodically in the *Federal Register*.) (Social Security Act, as amended, Sections 1101, 1118, 1905), and 50 percent of the program expenditures for administration and staff training. (42 U.S.C. Section 603)
- The State must pay 10 percent of the cost for planning, designing, developing or installing of a Statewide automated application processing and information retrieval system, approved by HHS. (45 CFR 205.35–38, CFR 233; 42 U.S.C. Section 603(a)(3)(B))
- State and local costs must be allocated in accordance with Federal regulations under an approved cost allocation plan. (45 CFR 95.517)
- The State is required to refund the amounts claimed for canceled and uncashed checks to the program. (45 CFR 201.67)

Suggested Audit Procedures

- Review the most recent analysis of the State's AFDC administrative cost allocation plan made by the HHS Regional Division of Cost Allocation (DCA) and ascertain whether all deficiencies noted by DCA have been resolved.
- Ascertain that the appropriate matching rates are applied for the amounts reported to the Federal Government.
- Determine whether the costs used to match Federal funds are allowable as matching.
- Review and evaluate the entity's procedures, and determine whether recoveries of overpayments and other credits, such as escheated warrants, are returned promptly to the Federal Government.
- Test financial records and determine whether credits were returned promptly to the Federal Government.
- For local governments, review selected costs and determine whether there is adherence to the prescribed procedures.

D. Special Reporting Requirements

Compliance Requirement

Reports on estimated program expenditures, status of funds on hand, and requests for Federal funds must be submitted on a periodic basis.

Suggested Audit Procedure

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

There are no special tests or provisions.

CHILD SUPPORT ENFORCEMENT TITLE IV–D

13.783

I. PROGRAM OBJECTIVES

The objectives of the Child Support Enforcement Program (Title IV–D) are to: (1) enforce the support obligations owed by absent parents to their children, (2) locate absent parents, (3) establish paternity, and (4) obtain child and spousal support.

II. PROGRAM PROCEDURES

States are awarded funds quarterly based on their estimates of the funds needed to provide child support enforcement services to individuals receiving AFDC and individuals not receiving AFDC but who have applied for such services. The services are provided directly.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Federal funds can be expended only according to the approved Title IV–D State plan. (45 CFR 302.12, 302.13 302.14; 42 U.S.C. 652)

Suggested Audit Procedure

Review the approved Title IV–D State plan and test expenditure records and supporting documentation to determine whether only allowable expenditures were charged.

B. Eligibility

Compliance Requirement

Eligible recipients are (1) inidividuals applying for or receiving AFDC for whom an assignment of child support rights has been made to the State; (2) former AFDC recipients who continue to receive IV–D services without filing an application; and (3) individuals needing such services who have applied to a State child support enforcement agency. (45 CFR 302.33, 45 CFR 232.11, 232.12, 232.20)

Suggested Audit Procedures

- Review and evaluate procedures for determining eligibility for child support enforcement services.
- Review records for selected participants and determine whether there is adherence to prescribed requirements.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

The State's share of administrative costs is as follows: 30 percent for fiscal year 1987, 32 percent for fiscal years 1988 and 1989, and 34 percent thereafter. (45 CFR 302.11, 45 CFR 304.20; 42 U.S.C. 655(a) 1989 Revision)

Costs for statewide computerized enforcement systems eligible for 90 percent Federal funding are not included in the above rate.

Suggested Audit Procedure

Ascertain the amount of administrative costs and review financial records to determine the share paid by the State.

D. Special Reporting Requirements

Compliance Requirement

The following financial reports must be submitted periodically for this program:

- Quarterly Estimate of Expenditures (OCSE–65).
- Quarterly Statement of Expenditures (OCSE–41).

Suggested Audit Procedure

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

Compliance Requirement

The IV–D agency must attempt to establish the paternity of any child for whom there is an assignment of rights under Title IV–A or IV–E of the Social Security Act or of any child for whom there is an application for services. (45 CFR 302.31(a), 45 CFR 302.33; 42 U.S.C. 654(4)(A, B))

Suggested Audit Procedures

- Review audit work done by Federal auditors and determine if the compliance requirement was adequately reviewed or if additional audit work is necessary. If additional audit work is not necessary:
- Review the procedures used to (1) obtain the identity of the putative fathers and (2) establish paternity by court order, acknowledgment, or other legal process.
- Review selected case files and determine whether there is adherence to prescribed procedures, including taking actions, such as contacting the putative father, referring the case to an attorney for legal action, and/or establishing paternity by court order, acknowledgment, or another legal administrative process.

Compliance Requirement

The IV-D agency must attempt to locate absent parents through the establishment and utilization of (1) a central state parent locator service; (2) State and local "locator" sources; (3) written procedures for accepting applications from authorized persons to use the parent locator service; and (4) utilization, when necessary, of the Federal Parent Locator Service, provided it has developed and uses measures to safeguard information transmitted and received through that service. (45 CFR 302.35, 303.70(d)); 42 U.S.C. 653)

Suggested Audit Procedures

- Review and evaluate procedures used to locate absent parents and safeguard information transmitted and received.
- Review selected case files and determine whether there is adherence to prescribed procedures, including the use of all feasible locator sources.

Compliance Requirement

The State must ask the courts to establish support obligations for any child for whom there is an assignment of rights or for whom an applicaton for services has been received and who has not previously had a child support obligation established under State law. (45 CFR 302.31(a), 302.33; 42 U.S.C. 654(4)(A, B))

Suggested Audit Procedure

Determine if the State agency has asked the courts to establish support obligations.

Compliance Requirement

The State must attempt to enforce all child support obligations by identifying and contacting obligers and enforcing delinquent obligations. (45 CFR 303.6; U.S.C. 654 (13)(18)(19))

Suggested Audit Procedures

- Review and evaluate procedures for identifying and contacting delinquent obligers and enforcing the child support obligations, using criteria, such as adequacy of records and actions to be taken.
- Determine if the State has personnel attempting to enforce the payment of obligations and representing the State in court.
- Review selected case files and determine whether there is adherence to prescribed procedures.
- Determine whether a State uses reciprocal arrangements with other States.

Compliance Requirement

The IV-D agency must distribute child support collections in the following sequence (45 CFR 302.32, 302.37, 303.52); 42 U.S.C. 657): The first $50.00 must be allocated to the family for which an assignment of rights has been established. Then distribute collections to:

- The State and Federal governments for their shares of that month's public assistance payments, unless the collection was for other than that month's assistance,
- The State as reimbursement for any past assistance owed,
- The family,

- The State to be used for a future payment.

Suggested Audit Procedures

- Review and evaluate procedures for the distribution of child support collections in consistency with above sequence.
- Review selected case files and determine whether there is adherence to the prescribed procedures.

Compliance Requirement

The IV–D agency must have requirements and criteria in effect for the separation of cash handling and accounting functions. (45 CFR 302.20)

Suggested Audit Procedures

- Review and evaluate procedures and internal controls at the IV-D agency to ensure that each individual responsible for handling cash receipts of support does not participate in accounting or operating functions that would permit them to conceal in the accounting records the misuse or diversion of support funds collected.
- Review selected case files and determine whether there is adherence to prescribed procedures (unless a sparsely populated area has been given a waiver by the Office of Child Support Enforcement).

REFUGEE AND ENTRANT ASSISTANCE—STATE-ADMINISTERED PROGRAMS

13.787

I. PROGRAM OBJECTIVES

The objectives of the Refugee and Entrant Assistance—State-Administered Programs are to provide maintenance, medical assistance, and social services to refugees and Cuban and Haitian entrants so that the assisted individuals will achieve economic and social selfsufficiency after their resettlement throughout the country.

II. PROGRAM PROCEDURES

Grants are made to States having an approved State plan to HHS. The funds are used by State and local welfare and health agencies to provide assistance to eligible refugees and Cuban and Haitian entrants.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

When a refugee applies for assistance, a State must first determine his or her eligibility under other federally aided public assistance programs. (45 CFR 400.56 and 400.94)

Suggested Audit Procedure

Review and evaluate the control systems to ensure that refugees are considered for assistance under other federally aided public assistance programs.

B. Eligibility

Compliance Requirements

Clients eligible for refugee and entrant benefits must have either refugee or entrant documented status (45 CFR 400.43) and must receive assistance within the time limitations authorized by the Office of Refugee Resettlement. (Bill Gee's December 30, 1987 memorandum to State Refugee Coordinators, 45 CFR 400.203). (Check with Office of Refugee Resettlement for further guidance.)

The classes of benefits available are:

- Categorical aid programs, such as AFDC and medicaid, for which the refugee is eligible. (45 CFR 400.56, 400.94)
- Categorical aid programs for which the refugee is ineligible but meets the financial eligibility standards. (45 CFR 400.60, 400.100)
- Social services. (45 CFR 400.145)
- Child welfare services for unaccompanied minors. (45 CFR 400.100–113)

Suggested Audit Procedures

- Review the internal control systems to ensure that only eligible refugees receive assistance and that assistance is not claimed for periods exceeding the time limitation prescribed for providing benefits.
- Select a sample of claimants receiving benefits and determine whether payment was made only to eligible refugees and within specified time limits.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

Federal funding is available at the following rates for eligible refugees (45 CFR 400.202–220):

- 100 percent of the non-Federal share of AFDC, Title IV-E Foster Care, and medicaid payments for refugees under these programs.

- 100 percent of general assistance payments.
- 100 percent of refugee medical assistance and cash assistance payments.
- 100 percent of refugee child welfare and social services.
- 100 percent of administrative costs.

Suggested Audit Procedures

Ascertain that the costs claimed as refugee assistance are properly identified.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirements

- A State must develop and implement an appropriate plan for the care and supervision of and services provided to each unaccompanied minor. (45 CFR 400.118)
- A State must report unaccompanied minors to the Office of Refugee Resettlement. These reports track the progress of the resettlement of the minor. (45 CFR 400.120)

Suggested Audit Procedures

Review and evaluate the internal control systems to ensure development of individual plans for each unaccompanied minor and the reporting and tracking on the care of unaccompanied minors.

LOW-INCOME HOME ENERGY ASSISTANCE

13.789

I. PROGRAM OBJECTIVES

The objective of the Low-Income Home Energy Assistance Block Grant Program is to provide funds to States and eligible Indian tribes to help low-income people meet the costs of home energy.

II. PROGRAM PROCEDURES

Cash payments are granted to individuals and vendors to meet home energy costs, and the State may choose to provide low-cost residential weatherization or other energy-related home repairs for low-income households.

Funds are obtained by the grantee in accordance with a predefined formula, upon submission of an application to the Secretary of HHS.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to Federal statutory requirements, each grantee has the authority to issue rules consistent with Federal statutes and regulations. The rules should be reviewed before beginning the audit.

A. Types of Services Allowed or Unallowed

Compliance Requirements

- Funds may be used to assist eligible households to meet the costs of home energy. (Public Law 97–35, Section 2602(a); 42 U.S.C. 8621)
- Funds may not be used for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than low-cost residential weatherization or other energy-related home repairs) of any building or facility. (Public Law 97–35 Sec. 2609; 42 U.S.C. 8628)

Suggested Audit Procedures

- Review the internal control system to ensure that expenditures were made for allowable purposes.
- Test expenditure and related records to determine whether only allowable expenditures were charged to these funds.

Compliance Requirement

No more than 15 percent of the greater of the funds allotted or the funds available to the State may be used for low-cost residential weatherization or other energy-related home repairs. (Public Law 97–35, Section 2605(k); 42 U.S.C. 8624)

Suggested Audit Procedures

- Review and evaluate the internal control system to ensure that the limitation is not exceeded.
- Test expenditure and related records to determine if the 15-percent limitation was exceeded.

Compliance Requirements

- No more than 10 percent of the funds made available to the State and not transferred may be used for planning and administrative costs. (Public Law 97–35, Section 2605(b)(9)(a); 42 U.S.C. 8624)
- Administrative costs have been clarified as follows: "Any expenditure for governmental functions normally associated with administration of a public assistance program must be included in determining administrative costs subject to the statutory limitation on administrative costs, regardless of whether

the expenditure is incurred by the State, a subrecipient, a grantee, or a contractor of the State." (45 CFR 96.88) (For a detailed discussion of administrative costs, the auditor should refer to 52 FR 37961–37964, dated October 18, 1987.)

Effective fiscal year 1988, tribal and territorial grantees whose funds payable are $20,000 or less may use up to 20 percent of the funds payable and not transferred to another block grant. Tribal and territorial grantees whose funds payable are over $20,000 may use up to $4,000 plus 10 percent of the amount payable and not transferred that exceeds $20,000.

Suggested Audit Procedures

- Review the internal control system to ensure that the limitation is not exceeded.
- Test expenditure and related records to determine if the administrative cost limitation was exceeded.

Compliance Requirements

- A reasonable amount of funds available, based on data from prior years, must be reserved until March 15 for intervention in an energy crisis, for example, weather-related and supply shortage emergencies. (Public Law 97–35, Section 2604(c); 42 U.S.C. 8623(C) 1989 Revision)
- A household applying for crisis benefits must be provided assistance no later than 48 hours after the household applies. If the household is in a life-threatening situation as defined by the State, assistance must be provided within 18 hours after the household applies.

Suggested Audit Procedures

- Determine amount of block grant funds reserved and/or expended for an energy crisis and contrast with total program expenditures and amounts expended in prior years for energy crisis intervention.
- Review the internal control system to ensure that a household applying for crisis benefits receives assistance within the specified time frames.
- Review selected files and determine adherence to prescribed procedures.

Compliance Requirement

Up to 10 percent of the funds made available to a grantee may be transferred to programs funded by the health, social services, and community services block grants, and such transfers must be reported to HHS. (Public Law 97–35, Section 2604(f); 42 U.S.C. 8623(f) 1989 Revision)

Suggested Audit Procedure

Determine the amount and purpose of transferred funds to determine whether only allowable transfers were made.

B. Eligibility

Compliance Requirement

Participation is limited to (1) households with income levels that do not exceed 150 percent of the poverty level or 60 percent of State median income and (2) recipients of AFDC, Supplemental Security Income, Food Stamps, and certain veterans benefits. Income eligibility limit may not be set below 110 percent of the poverty level. (Public Law 97–35, Section 2605(b)(2)(A), (B); (42 U.S.C. 8624)

Suggested Audit Procedures

- Review the internal control system to ensure that services are provided only to eligible participants.
- Review selected files and determine adherence to prescribed procedures.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirements

- Grantees are required to submit a report of the amount that they are carrying forward to the next fiscal year, the reason for the carry forward, and how the carry forward will be used. In addition, any funds available for reallotment must be reported. This report is due August 1 of each Federal fiscal year.
- Grantees are required to submit by October 31 of each year a report providing the number and income levels of the households assisted and the number of households that contained one or more elderly or handi-

capped individuals during the preceding year.

Suggested Audit Procedure

Review the reports for completeness.

E. Special Tests and Provisions

Compliance Requirement

Public hearings must be conducted annually on the proposed use and distribution of funds, after the expiration of the first fiscal year for which a State receives funds. (Public Law 97–35, Section 2605(a)(2); 42 U.S.C. 8624)

Suggested Audit Procedures

- Review published notices of public hearings.
- Examine minutes of hearings.

Compliance Requirement

For fiscal years 1982–1987, the highest level of assistance must be provided in a timely and efficient manner to households that have the lowest incomes and highest energy costs. Effective fiscal year 1988, the "efficient manner" has been deleted from this requirement. (Public Law 97–35, Section 2605(b)(5); 42 U.S.C. 8624)

Suggested Audit Procedures

- Review plans and procedures for providing assistance to low-income, high-energy cost households.
- Sample recipient household records and determine adherence to prescribed procedures.

Compliance Requirement

Outreach must be conducted to ensure that eligible households, particularly those with elderly and handicapped individuals, are aware of the assistance provided in this program. (Public Law 97–35, Section 2605(b)(3); 42 U.S.C. 8624)

Suggested Audit Procedure

Review the grantee's plan or other procedures for outreach.

Compliance Requirement

Homeowners and renters must be treated equitably. (Public Law 97–35, Section 2605(b)(8), 42 U.S.C. 8624(b)(8) 1989 Revision)

Suggested Audit Procedures

- Review and evaluate the grantee's plan or other procedures for equitable treatment.
- Sample recipient household records and determine whether there is adherence to prescribed procedures.

Compliance Requirement

If the grantee chooses to pay home energy suppliers directly, procedures must be established to (1) notify recipient households of the amount of assistance paid on their behalf; (2) ensure that the home energy supplier will charge the household, in the normal billing process, the difference between the actual costs of the energy supplied and the amount of the payment made by the grantee; (3) ensure that no household will be treated adversely because of the assistance; and (4) ensure that the home energy supplier does not discriminate against the eligible household. (Public Law 97–35, Section 2605(b)(7); 42 U.S.C. 8624(b)(7) 1989 Revision)

Suggested Audit Procedures

- Review the internal control systems to ensure compliance with the requirement that notification be given to housholds receiving assistance through payments made on their behalf to suppliers.
- Sample recipient household records and identify notification of assistance provided on their behalf.
- Review vendor agreements for inclusion of non-discrimination provisions.

Compliance Requirement

Households that are denied assistance or do not receive reasonably prompt assistance must have an opportunity for a hearing. (Public Law 97–35, Section 2605(b)(13); 42 U.S.C. 8624(b)(13)(c) 1989 Revision)

Suggested Audit Procedures

- Review procedures to ensure that hearings are provided to households denied or not obtaining prompt assistance.
- Determine compliance with prescribed procedures.

Compliance Requirement

Effective Federal fiscal year 1985, up to 15 percent of the funds made available to a State and not transferred to another block grant may be carried over for use in a second year. (Public

Law 97–35, Sec 2607(b)(2)(B); 42 U.S.C. 8626 1989 Revision, 45 CFR 96.14)

Suggested Audit Procedures

- Ascertain the funds payable to a grantee and not transferred.
- Ascertain the balances remaining at the end of the first year and ensure that amounts were obligated in the second year as required.

WORK INCENTIVE PROGRAM/WIN DEMONSTRATION PROGRAM

13.790

I. PROGRAM OBJECTIVES

The objectives of the Work Incentive Program (WIN) are to move men, women, and out-of-school youth, age 16 years or older, from dependency on AFDC grants to economic independence. This objective is achieved by providing appropriate employment training, job placement, and other related services, supplemented by child care and other social services, when needed, so that they can secure permanent, productive employment.

II. PROGRAM PROCEDURES

Funds are provided to the State on approval of an annual plan submitted to a regional coordinating committee. The State employment and training services unit provides training and job placement services. A separate administrative unit in the State department of social services or similar organization provides the social services.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Moneys cannot be expended for other than the following support services, unless otherwise specified in the special conditions of the grant: (1) child day care, (2) family planning, (3) counseling and selected vocational rehabilitation services, (4) employment-related medical and health-related services. (45 CFR 224.30(c); 29 CFR 56.30(c))

Suggested Audit Procedures

- Review internal controls to ensure that funds are only spent for allowed services.
- Test expenditures and related records.

B. Eligibility

Compliance Requirement

Only certified WIN registrants (with certain exceptions, all AFDC applicants and recipients) are eligible for the federally financed (90 percent) support services. (45 CFR 224.15c; 29 CFR 56.15c)

Suggested Audit Procedures

- Review procedures for certifying registrants and for determining who receives services.
- Obtain a list of WIN registrants that shows certification status.
- Review selected certified registrants' files and determine adherence to prescribed procedures.
- Test records of registrants receiving supportive services and determine whether any are not certified.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The State is required to fund 10 percent of the support services. (45 CFR 224.16; 29 CFR 56.16; 42 U.S.C. 643)

Suggested Audit Procedures

- Ascertain the amount reported as support service costs.
- Review financial records and determine amounts provided by State.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

AFDC assistance must be reduced or terminated if there is a relevant change in a WIN recipient's status, for example, employment, disposable income changes, or family size changes. (45 CFR 224.21(a)(5); 29 CFR 56.21(a)(5))

Suggested Audit Procedure

Review the procedures for determining and recording status changes and for securing appropriate AFDC assistance reductions or termination of registrants with changed status. Evaluate whether they would ensure proper processing within a reasonable time.

Compliance Requirement

To the maximum extent possible, State employees assigned to the separate administrative unit are required to perform functions related only to the WIN program. (45 CFR 224.30a; 29 CFR 56.30a)

Suggested Audit Procedures

- Obtain a list of State employees assigned to the separate administrative units.
- Test employee workloads, job descriptions, time records, and so forth, to determine whether they are devoting 100 percent of their time to WIN activities.

COMMUNITY SERVICES BLOCK GRANT

13.792

I. PROGRAM OBJECTIVES

The objective of the Community Services Block Grant (CSBG) Program is to provide funds to States and Indian tribes for community-based programs that assist in ameliorating the causes and consequences of poverty.

II. PROGRAM PROCEDURES

Funds are obtained by the State in accordance with a pre-defined formula, upon submission of an application to the Secretary of HHS.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to Federal statutory requirements, each State has the authority to issue rules consistent with Federal statutes and regulations. These rules should be reviewed before beginning the audit.

A. Types of Services Allowed or Unallowed

Compliance Requirements

- Funds may be used to: (1) provide services having a measurable impact on causes of poverty in a community; (2) assist low-income persons to secure or retain employment, attain an adequate education, make better use of available income, obtain and maintain adequate housing and a suitable living environment, obtain emergency assistance through loans or grants to meet urgent needs, achieve self sufficiency, achieve greater participation in community affairs, and make more effective use of other programs related to purposes of the block grant; (3) provide or arrange for emergency supplies, services, and foodstuffs to counteract conditions of starvation and malnutrition among the poor; (4) establish linkages between governmental and other social service programs to ensure effective delivery of services to low-income persons; and (5) encourage use of private sector entities in the community to ameliorate poverty. (Public Law 97–35, Section 675(a)(c))
- Funds may not be used to purchase or improve land or to purchase, construct, or permanently improve buildings or facilities, other than low-cost residential weatherization or other energy-related home repairs, unless waived by the Secretary of HHS. (Public Law 97–35, Section 680(a) (42 U.S.C. 9909))
- Funds may not be used to provide voters or prospective voters with transportation to the polls or provide similar assistance in connection with an election or any voter registration. (Public Law 97–35, Section 675(c)(7; 42 U.S.C. 9904(a)(c)(7))

Suggested Audit Procedures

- Review the internal control systems to ensure that expenditures were made for allowable purposes.
- Test expenditures and related records.
- Examine waivers for purchases and improvements of land, buildings, and/or facilities if applicable.

Compliance Requirement

The Governor certifies that the State agrees to provide assurances that the State will not expend more than the greater of $55,000 or 5 percent of its allotment under Section 674 for administrative expenses (as defined by the State) at the State level. (Public Law 97–35, Section 675(c)(2)(B), as amended by Public Law 98–558, Section 203(a)(4))

Suggested Audit Procedure

Ascertain that the State has not exceeded the limitation on administrative costs.

Compliance Requirement

No more than 5 percent of the allotment may be transferred to the Head Start program, to services provided under the Older Americans Act, to the Low-Income Home Energy Assistance block grant, or for services provided under the Temporary Emergency Food Assistance Act. (Public Law 97–35, Section 675(c)(5), as amended by Public Law 98–558, Section 203(a)(5))

Suggested Audit Procedure

Ascertain whether the amount and purposes of all transfers met program requirements.

B. Eligibility

Compliance Requirements

- At least 90 percent of each fiscal year's funds must be used to make grants to existing community action agencies, to organizations serving migrant and seasonal farmworkers, or to any limited-purpose agency receiving Section 221 funds under the Economic Opportunity Act of 1964 and serving the general purposes of a community action agency. (Public Law 97–35, Section 675(c)(2); 42 U.S.C. 9904, as amended by Public Laws 98–138 and 98–558)
- States must agree to use not less than 90 percent of the funds allocated to the State under Section 674 to make grants for the purposes described in Section 675(c)(1) to eligible entities (as defined in Section 673(1)) or to organizations serving seasonal or migrant farmworkers; *except that no more than 7 percent of the funds available for this subclause shall be granted to organizations that were not eligible entities during the previous fiscal year.*
- For waiver States—Colorado, Utah, and Wyoming—the State must agree to use not less than 90 percent of the funds allocated to the State under Section 674 to make grants to political subdivisions of the State for the political subdivisions to use for the purposes described in 675(c)(1) directly, or to nonprofit private community organizations which have a board that meets the requirements of clause (3), or to migrant and seasonal farmworker organizations based on a waiver received under Public Law 98–138. (Public Law 97–35, Section 675(c)(2); 42 U.S.C. 9904, as amended by Public Laws 98–138 and 98–558)

Suggested Audit Procedures

- Review the internal control systems for controling and distributing the funds to the required organizations.
- Review grant records and determine whether the 90-percent floor was achieved.

Compliance Requirement

The State must agree to give special consideration in the designation of local community action agencies under this subtitle to any community action agency that is receiving funds under any Federal antipoverty program on the date of the enactment of this Act, except that (1) the State shall, before giving such special consideration, determine that the agency involved meets program and fiscal requirements established by the State; and (2) if there is not such agency because of any change in the assistance furnished to programs for economically disadvantaged persons, the State shall give special consideration in the designation of community action agencies to any successor agency that is operated in substantially the same manner as the predecessor agency that did receive funds in the fiscal year preceeding the fiscal year for which the determination was made. (Public Law 97–35, Section 675(c)(4); 42 U.S.C. 9904, as amended by Public Law 98–558)

Suggested Audit Procedure

Review and evaluate State procedures for giving special consideration to those community action agencies receiving Federal funds in August 1981.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

A report must be prepared on the proposed use of funds and must include goals and objectives, types of activities to be supported, geographic areas to be served, individuals to be served, and

criteria and methods for distributing funds. The required report shall disclose how the goals, objectives, and needs identified for the previous fiscal year have been met. The report must be made available to the public on a timely basis and in a manner that facilitates comments from interested local governments and persons. (Public Law 97–35, Section 1742; 42 U.S.C. 9904(d))

Suggested Audit Procedure

Review the report for completeness.

E. Special Tests and Provisions

Compliance Requirement

Public hearings must be held by the State legislature on the proposed use and distribution of funds. (Public Law 97–35, Section 1742(c); 42 U.S.C. 9904(b))

Suggested Audit Procedures

- Review published notices of public hearings.
- Examine minutes of hearings.

Compliance Requirement

Funds for a fiscal year allotment must be expended in the same or succeeding fiscal year. (Public Law 97–35, Section 678(b); 42 U.S.C. 9907)

Suggested Audit Procedure

Review financial records to ensure that allotments were expended during the proper periods.

SOCIAL SECURITY—DISABILITY INSURANCE

13.802

I. PROGRAM OBJECTIVES

The objectives of the Title II and Title XVI Disability Insurance Program are to provide disability benefits to individuals meeting Social Security Administration (SSA) work history and/or medical requirements and to provide referral to vocational rehabilitation services to rehabilitate such individuals into productive activity.

II. PROGRAM PROCEDURES

On application for disability insurance benefits and after an initial screening for certain nonmedical eligibility requirements, State Disability Determination Service (DDS) units act as agents for the Secretary of HHS in making disability insurance determinations, following specific procedures and guidelines provided by SSA. DDS determines if a person is blind or disabled, the date the blindness or disability occurred, and the date the disability or blindness ceased. The cost of making disability insurance determinations is 100 percent federally funded.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

DDS must operate within specified workyear (budget) limitations in performing the disability decision function. DDS may be required to submit plans detailing how they will comply with these limitations. DDS must also conform to established State salary structures in compensating their employees. (Social Security Act, section 221; 20 CFR 404, 416)

Suggested Audit Procedures

- Review DDS staffing salary in relation to its budget limitations.
- Review DDS personnel actions compared with work plans (e.g., reduction-in-force, transfers to other State agencies, new hires, etc.) for timing and completeness.
- Review time and attendance records, as well as State salary schedules versus actual compensation to DDS employees.

Compliance Requirement

State agencies will secure from the claimant or other sources any evidence needed to make a disability determination. Certain DDSs must operate within a total medical cost limitation when performing the disability decision process. Consultative examinations and medical evidence of record must be purchased within the confines of State-developed fee schedules. (Social Security Act, section 221; 20 CFR 404, 416)

Suggested Audit Procedures

- Review the internal control systems to ensure that expenditures are made only for allowable purposes.
- Verify that procedures for attempting to obtain and use medical evidence of record before purchasing consultative examinations are being followed.
- Verify that fees being paid for consultative examinations and medical evidence of record are not exceeding the State-developed fee schedules.
- Verify that payments do not include duplicate billings or payments for evidence not received.
- Verify that fees on the fee schedule do not exceed fees paid by Federal or other State agencies for the same or similar services.
- Reconcile disbursements with vouchers for medical services and verify that total medi-

cal cost limitations have not been exceeded, if applicable.

Compliance Requirement

Some States will enter into an agreement with SSA to permit DDS to process non-SSA work for another State program. This process shall not take priority over SSA work or involve the use of any SSA-provided funding.

Suggested Audit Procedures

- Review internal control systems to ensure that Federal funds are not used for non-SSA work.
- Verify whether DDS is involved in providing work assistance for any non-SSA workloads, and if so, determine whether an agreement approved with SSA is in existence to describe this work.
- Verify the source of funding for the non-SSA work, and determine whether it is on an advance (not reimbursable) basis.
- Verify that DDS costs related to the non-SSA work are totally funded from non-SSA funding sources.
- If any costs for non-SSA work involve the prorated use of DDS staff, equipment, utilities, and so forth between SSA and non-SSA resources, verify that the proration conforms with the procedures contained in the agreement.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

DDS is required to report employee time information each quarter on form SSA–4514. These reports are not designed to be cumulative as the Federal fiscal year progresses. These reports must be submitted by the 25th day after the close of each quarter. (Social Security Act, section 221; 20 CFR 404, 416)

Suggested Audit Procedures

- Reconcile time and attendance reports with SSA–4514 reports.
- Verify that the reports have been completed in accordance with Program Operations Manual System (POMS) instructions.

Compliance Requirement

DDS is required to report obligations and employee time each quarter into the Cost-Effectiveness Measurement System (CEMS) data base. This data must be input within 30 days after the close of the quarter. (Social Security Act, section 221; 20 CFR 404, 416)

Suggested Audit Procedures

- Reconcile accounting records and employee time and attendance reports with the data input to CEMS.
- Verify that the data was input timely.

Compliance Requirement

DDS is required to report medical cost data into the Medical Expense Disaggregated Direct Input of Cost (MEDDIC) subsystem of CEMS each quarter. The data must be input by the 15th day after the close of the quarter. (Social Security Act, section 221; 20 CFR 404, 416)

Suggested Audit Procedures

- Reconcile consultative examination records and medical-evidence-of-record information with the data input into MEDDIC.
- Verify that the data was input timely.

Compliance Requirement

DDS is required to submit detailed medical-evidence-of-record data each quarter as a supplement to the SSA–4513 report. The data on the report are to be cumulative through the fiscal year, as is the data on the SSA–4513 report. (Social Security Act, section 221; 20 CFR 404, 416)

Suggested Audit Procedures

- Verify that this supplement is being prepared and submitted each quarter.
- Verify that data on the report is cumulative through the fiscal year.

E. Special Tests and Provisions

There are no special tests or provisions.

PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT
(PHHS Block Grant)

13.991

I. PROGRAM OBJECTIVES

The objectives of the Preventive Health and Health Services Block Grant are to provide funds to States and eligible Indian tribes for preventive health services for individuals and families, especially those of limited means, and to provide for a variety of public health services to reduce preventable morbidity and mortality and improve the quality of life.

II. PROGRAM PROCEDURES

Funds are obtained by the State in accordance with a predefined formula, upon submission of an application to the Secretary of HHS. A separate allotment is provided for rape crisis and rape prevention services. Funds allotted to the State for 1 fiscal year remain available for the next fiscal year for the purposes that the amount was originally allotted.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to Federal statutory requirements, each State has the authority to issue rules consistent with Federal statutes and regulations. These rules should be reviewed before beginning the audit.

A. Types of Services Allowed or Unallowed

Compliance Requirements

Funds may be used only for the following services:

- School-based fluoridation programs.
- Control of rodents.
- Screening, detection, diagnosis, prevention, and referral programs for treatment of hypertension and elevated serum cholesterol.
- Community-based programs for demonstrating and evaluating (1) comprehensive preventive health services to defined populations, (2) programs designed to deter smoking and the use of alcoholic beverages among children and adolescents, and (3) other risk-reduction and health-education programs, including programs designed to reduce the incidence of chronic diseases.
- Comprehensive public health services, including immunization services.
- Home health agencies (defined in Section 1861 of the Social Security Act) in areas where the services of these agencies are not available.
- Feasibility studies and planning for emergency medical services and the establishment, expansion, and improvement of these services.
- Programs for victims of sex offenses and for prevention of sex offenses.
- Community-based programs for establishing and maintaining preventive health service programs for screening, detection, diagnosis, prevention, and referral for treatment of and follow-up treatment prescribed for uterine cancer and breast cancer.

(42 U.S.C. 300 w–3(a)(1)(G) 1989 Revision)

The State may not use funds to:

- Provide inpatient services.
- Make cash payments to intended recipients of health services.
- Purchase or improve land; purchase, construct, or permanently improve (other than minor remodeling) any building or other facility; or purchase major medical equip-

ment—unless the State has obtained a waiver from the Secretary of HHS.

- Satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds.
- Provide financial assistance to any entity other than a public or nonprofit private entity.

(42 U.S.C. 300w–3)(b))

Suggested Audit Procedure

Review controls to ensure that only allowed expenditures are paid by the grant. Test expenditure and related records, including applicable waivers.

Compliance Requirements

- Funds used by a State to support home health agencies may not be used for the direct provision of health services. (42 U.S.C. 300w–3(a)(l)(E))
- Funds used by a State for emergency medical service systems may not be used for the cost of operation of the systems or the purchase of equipment for the systems, except that such amounts may be used for the payment of not more than 50 percent of the costs of purchasing communications equipment for the systems. (42 U.S.C. 300w-3(a)(1)(F) 1989 Revision)
- Money allotted to the State for rape crisis services and rape prevention may not be used for other purposes. (42 U.S.C. 300w–3(a)(2))

Suggested Audit Procedures

- Ascertain amount of funds allotted for emergency medical service systems, home health agencies, and rape crisis services. Compare amounts with the grant award.
- Test expenditure and related records.

Compliance Requirements

- No more than 7 percent of the amount allotted, other than from the amount alotted for rape crisis/prevention, which cannot be transferred, may be transferred to other health block grants. No more than 3 percent can be transferred in the first three quarters. (42 U.S.C. 300w–3(c))
- No more than 10 percent of an allotment may be used for administering the block grant funds. (42 U.S.C. 300–w3(d))

Suggested Audit Procedure

Ascertain that any transfer of funds and administrative costs complied with grant requirements.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

The State must prepare a report that describes the: (1) purpose of expenditures; (2) preventive health and preventive health services programs in the State, including (a) a summary of the services that were provided, (b) the providers of such services, and (c) the individuals who received such services; and (3) progress made toward achieving the purposes for which the funds were provided, in a manner that facilitates comment from local government and individuals, and that make copies available to interested persons. (42 U.S.C. 300w–5(a)(1) 1989 Revision)

Suggested Audit Procedure

Review the report for completeness.

E. Special Tests and Provisions

Compliance Requirement

For the second and later years in which the State receives block grant funds, the State legislature shall conduct public hearings on the proposed use and distribution of the funds. (42 U.S.C. 300w–4(b))

ALCOHOL AND DRUG ABUSE AND MENTAL HEALTH SERVICES BLOCK GRANT (ADMS Block Grant)

13.992

I. PROGRAM OBJECTIVES

The objective of the Alcohol and Drug Abuse and Mental Health Services Block Grant is to provide funds to States, territories, and eligible Indian tribes for use in providing certain types of alcohol, drug abuse, and mental health prevention, treatment, and rehabilitation services as specified in the statute.

II. PROGRAM PROCEDURES

Funds are obtained by the State in accordance with a predefined formula, upon submission of an application to the Secretary of HHS.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to Federal statutory requirements, each State has the authority to issue rules consistent with Federal statutes and regulations. These rules should be reviewed before beginning the audit.

A. Types of Services Allowed or Unallowed

Compliance Requirements

- Funds designated for substance abuse may be used for planning, establishing, maintaining, coordinating, and evaluating projects for the development of more effective prevention, treatment, and rehabilitation programs and activities to deal with alcohol and drug abuse. (42 U.S.C. 300x–3(a)(l) 1989 Revision)
- Funds designated for mental health may be used for:
  - Services for chronically mentally ill individuals, including identifying these individuals and assisting them in gaining access to essential services through assignment of case managers.
  - Identification and assessment of severely mentally disturbed children and adolescents and provision of appropriate services to them.
  - Identification and assessment of mentally ill elderly individuals and provision of appropriate services to them.
  - Services for underserved populations.
  - Coordination of mental health and health care provided within health care centers.
  - Planning, administration, and education activities related to these services. (42 U.S.C. 300x–3(2) 1989 Revision)
- Funds may not be used to:
  - Provide inpatient hospital services.
  - Make cash payments to intended recipients of health services.
- Purchase or improve land, purchase, construct or permanently improve any building or other facility, or purchase major medical equipment—unless the State has obtained a waiver from the Secretary of HHS.
  - Satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds.
  - Provide financial assistance to any entity other than a public or nonprofit entity.

(42 U.S.C. 300x–3(b))

Suggested Audit Procedures

- Review controls to ensure that funds are only used to provide allowed services.

- Test expenditure and related records, including waivers where appropriate.

Compliance Requirement

Not more than 5 percent of the funds may be used for administrative costs (as defined by the State) for the Federal fiscal year. (42 U.S.C. 300x–3(d))

Suggested Audit Procedure

Ascertain the amount of the block grant funds and the amount of funds used for administrative purposes.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The State is required to divide block grant funds between substance abuse and mental health programs in accordance with a statutory formula. The required percentage ratio is calculated for each State by HHS and is indicated on the Notice of Grant Award. (42 U.S.C. 300x–1, 4; 42 U.S.C. 300x–4(c)(6)(A) 1989 Revision)

Suggested Audit Procedure

Ascertain the percentage of funding allocated by the State for mental health and for substance abuse, and compare with percentages in the Notice of Grant Award.

Compliance Requirement

The State must make grants to all community mental health centers that received a grant under the Community Mental Health Centers Act in fiscal year 1981 and that would have been eligible to receive a grant in the fiscal year subject to audit for its operation under the Act, unless HHS has agreed to defunding. (42 U.S.C. 300x–4(c)(2), (h)(2) 1989 Revision)

Suggested Audit Procedures

- Identify community mental health centers eligible to receive a grant in the fiscal year subject to audit, and determine if these centers received grants.
- Where appropriate, examine correspondence to determine defundings.

Compliance Requirement

Of the amount allotted for substance abuse, not less than 35 percent must be used for alcohol activities, not less than 35 percent for drug abuse activities, and not less than 20 percent for prevention and early intervention activities. (42 U.S.C. 300x–4(c)(7), (8) 1989 Revision) For fiscal year 1990 and subsequent fiscal years, not less than 50 percent of the amount reserved for drug abuse will be used for prevention and treatment of intravenous drug abuse.

Suggested Audit Procedure

Ascertain amounts used for programs and activities related to alcohol abuse, drug abuse, and prevention and discouragement of abuse. Compare with amount allotted for substance abuse.

D. Special Reporting Requirements

Compliance Requirement

The State shall prepare an annual report that describes the: (1) purpose of expenditures; (2) activities performed; (3) new or expanded programs for women's alcohol and drug abuse, for severely disturbed youths, and for comprehensive community mental health in underserved areas; (4) recipients of funds; and (5) progress made toward achieving the purposes for which the funds were provided. The report will be prepared and changed in a manner that facilitates comment from local governments and individuals. Copies will be made available to interested persons and public agencies. (42 U.S.C. 300x–5(a)(1) 1989 Revision; 31 U.S.C. 1243 note)

Suggested Audit Procedure

Review the report for completeness.

E. Special Tests and Provisions

Compliance Requirement

Funds made available to the State for a fiscal year may be expended in the following year for the purposes for which the funds were originally awarded. (42 U.S.C. 300x–2(a)(2) 1989 Revision)

Suggested Audit Procedure

Review financial records and determine if funds were expended within periods allowed.

MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT

13.994

I. PROGRAM OBJECTIVES

The objectives of the Maternal and Child Health Services Block Grant are to provide funds to States for (1) health services for mothers and children to reduce infant mortality, the incidence of preventable diseases, and handicapping conditions among children; (2) rehabilitative services for blind and disabled individuals under the age of 16 who receive benefits under the Supplemental Security Income program; and (3) treatment and care for children with special health needs.

II. PROGRAM PROCEDURES

Funds are obtained by the State in accordance with a predefined formula, upon submission of an application to the Secretary of HHS.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to Federal statutory requirements, each State has the authority to issue rules consistent with Federal statutes and regulations. These rules should be reviewed before beginning the audit.

A. Types of Services Allowed or Unallowed

Compliance Requirements

Funds may be used to:

- Provide health services to mothers and children.
- Provide access to quality maternal and child health services.
- Reduce infant mortality, the incidence of preventable diseases and handicapping conditions among children.
- Reduce the need for inpatient and long-term care services.
- Increase childhood immunization and the number of children receiving health assessments and follow-up diagnostic and treatment services.
- Provide rehabilitation services for blind and disabled individuals under 16 who receive Supplemental Security Income benefits.
- Provide services for locating children; for medical, surgical, corrective, and other services and care for children, and facilities for diagnosis, hospitalization, and aftercare for children who are "children with special health care needs" or who are suffering from conditions leading to such status.

(42 U.S.C. 701(a)(1-3); 42 U.S.C. 701(a)(4) 1989 Revision)

Funds may not be used for:

- Inpatient services, other than inpatient services provided to children with special health care needs or to high-risk pregnant women and infants and such other inpatient services approved by the Secretary of HHS.
- Cash payments to intended recipients of health services.
- The purchase or improvement of land; the purchase, construction, or permanent improvement (other than minor remodeling) of any building or other facility, or the purchase of major medical equipment—unless the State has obtained a waiver from the Secretary of HHS.
- Satisfying any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds.
- Providing funds for research or training to

any entity other than a public or nonprofit private entity.

- Payment for any item or service (other than an emergency item or service) furnished by or at the medical direction or prescription of an ineligible or uncertified individual or entity.

(42 U.S.C. 704(b) 1989 Revision)

Suggested Audit Procedures

- Review controls to ensure that funds are used only to provide allowed services.
- Test expenditure and related records including waivers.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

Every 4 Federal dollars expended for the program must be matched by 3 State dollars. (42 U.S.C. 703(a) 1989 Revision)

Suggested Audit Procedure

Review financial records and determine if matching requirements were met.

D. Special Reporting Requirements

Compliance Requirement

The State must prepare an annual report describing: (1) purpose of expenditures, (2) activities performed, (3) recipients of funds, and (4) progress made toward achieving the purposes for which the funds were provided. The State must provide copies of the report to interested parties and public agencies. (42 U.S.C. 706(a)(1))

Suggested Audit Procedures

Review the report for completeness.

E. Special Tests and Provisions

Compliance Requirement

The State must use a substantial proportion of the funds expended to provide health services to mothers and children, with special consideration, where appropriate, to continuation of funding of special projects previously funded under the Social Security Act and in effect before enactment of the block grant. (42 U.S.C. 705(2)(C))

Suggested Audit Procedures

- Review internal controls for providing special consideration to health services for mothers and children.
- Determine State expenditures for projects involving mothers and children for the current year, and compare the amounts with those of the prior year.

Compliance Requirement

Charges imposed by the State must be pursuant to a published schedule of charges and adjusted to reflect the income, resources, and family size of the recipients. Charges may not be imposed for services provided to low-income mothers and children. (42 U.S.C. 705(2)(D))

Suggested Audit Procedures

- Review and evaluate internal controls for adjusting charges for income, resources, and family size. Obtain published schedules of charges.
- Review selected charges and determine whether any are imposed for services provided to low-income mothers or children.

Section D. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

LOWER INCOME HOUSING ASSISTANCE PROGRAM AND SECTION 8 HOUSING VOUCHER PROGRAM

14.156 and 14.177

I. PROGRAM OBJECTIVES

The objectives of the Lower Income Housing Assistance Program and the Housing Voucher Program, commonly referred to as "Section 8," are to help low-income families obtain decent, safe, and sanitary housing through a system of rental subsidies.

II. PROGRAM PROCEDURES

The Department of Housing and Urban Development (HUD) enters into Annual Contributions Contracts (ACCs) with public housing agencies (PHAs), including State agencies, which enter into housing assistance payments contracts with private owners. The owners rent housing to eligible low-income families who typically pay the highest of 30 percent of adjusted income, 10 percent of gross income, or the portion of welfare assistance designated to meet housing costs for rent. The remaining portion of the rent for the unit is paid to the owner by PHA in a housing assistance payment.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility

Compliance Requirement

The PHA or State agency is required to (1) accept applications for admission to the program or projects; (2) maintain a waiting list of applicants; (3) determine whether the applicants qualify as families and are eligible; and (4) determine the amount of housing assistance payments. At least annually, the PHA or State agency must reexamine (in the cast of Section 8 certificates, moderate rehabilitation, and housing vouchers) or review project owner's review of family income, in the case of new construction or substantial rehabilitation composition, and contribution to rent and utilities. (24 Code of Federal Regulation (CFR) 882.112; 882.113; 882.209; 882.417; 882.518; 883.711; 812.3; 813.101–109; 882.212–214; 882.219; 882.510; 882.513–515; 882.517; 883.704–711; 883.714)

Suggested Audit Procedures

- Review the procedures for accepting applications; selecting applicants from the waiting list; verifying income and other factors for subsidy eligibility; and prescribing unit sizes. Evaluate these procedures for adequacy.
- Review selected application and certification files and determine adherence to prescribed procedures.
- Review PHA procedures for recertifying or monitoring the owner's reexamination of tenant eligibility and evaluate for adequacy.
- Review selected tenant data summary forms (5005(8) for new construction substantial rehabilitation projects) for completeness.

- Trace data to supporting documentation.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirements

The following financial reports must be submitted periodically for these programs:

- Supporting data for Annual Contributions Estimates (HUD–52672) and Estimate of Total Required Annual Contributions (HUD–52673).
- Requisition for Partial Payment of Annual Contributions (HUD–52663).
- Voucher for Payment of Annual Contributions and Operating Statement (HUD–52681).
- Balance Sheet (HUD–52595).

Suggested Audit Procedure

See Federal Financial Reports in the "General Requirements" section of this document.

Compliance Requirement

A Voucher for Payment of Annual Contribution and Operating Statement (HUD–52681) is due for the existing program, housing voucher program, and for each moderate rehabilitation project, new construction project, and substantial rehabilitation project.

Suggested Audit Procedures

- Test computation of the administrative fee, and trace unit months used to calculate the fee to supporting documentation.
- Compare beginning project account balance with prior-year HUD–52681 to determine whether any HUD adjustments to the prior PHA-reported balance have been recognized.

E. Special Tests and Provisions

Compliance Requirement

The PHA or State agency is required to review the contract rent (except for housing vouchers) and utility allowances for each unit to ensure that they do not exceed certain rent limitations. (24 CFR 883.305(b)(2); 882.106(a) and (b); 882.408; 882.409; and 881.609; 888.105; 888.115)

Suggested Audit Procedures

- On a test basis, compare the contract rent plus any utility allowance with the Fair Market Rent as published in the *Federal Register* or interim revisions (certificate and moderate rehabilitation programs).
- Determine if the PHA or State agency certifications are reasonable and if the certification is based on an appropriate documented methodology.

Compliance Requirement

Except for housing vouchers, the PHA or State agency is required to adjust contract rents and tenant utility allowances annually, on request from the owner. Special adjustments may also be granted to the extent determined necessary by the PHA or State agency and HUD. (24 CFR 882.108, 882.410, 883.710, 883.711, 883.203, 881.609, 888.610, 882.116(n))

Suggested Audit Procedures

- Review the procedures for handling adjustment requests and notifying tenants of utility allowance adjustments, and evaluate for adequacy.
- Test the supporting data, financial statements, and certifications submitted by owners to support special additional adjustments.
- Test owner requests, PHA or State agency determinations, and supporting documentation of utility allowance adjustments.
- For selected projects, review the files and determine if adjustments met the rent reasonableness test and were provided in accordance with the procedures.

Compliance Requirement

The PHA or State agency must inspect the project and review its operation at least annually to determine if the owner is in compliance with the HUD contract (applies to new construction and substantial rehabilitation projects only). (24 CFR 883.713, 883.702(d)(1)(i))

Suggested Audit Procedures

- Review PHA or State agency records of site visits to projects.
- Review records of selected site visits and determine whether the project's and individual unit's physical condition was examined,

and corrections of violations of standards for decent, safe, and sanitary housing sought.

Compliance Requirement

PHA is required to conduct an initial (annually thereafter) inspection of units before executing the Housing Assistance Plan (HAP) contract to ensure that the unit meets housing quality standards (applies to existing housing certificates, moderate rehabilitation, and housing voucher programs). The PHA or State agency is required to conduct annual inspections of units to ensure the units are in a decent, safe, and sanitary condition (new construction and substantial rehabilitation programs). (24 CFR 882.109, 882.116(o), 882.209(h), 882.211, 882.516, 881.612(a), 880.612(a), 883.713(a))

Suggested Audit Procedure

Select a sample of units for which HAP contracts were executed, and review inspection reports (Existing Housing Certificates—Moderate Rehabilitation and Housing Voucher Program).

COMMUNITY DEVELOPMENT BLOCK GRANTS (Entitlement Grants)

14.218

I. PROGRAM OBJECTIVES

The objectives of the Community Development Block Grant (CDBG) Program, Entitlement Grants, are the development of viable urban communities, decent housing and a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. This objective is to be achieved in two ways. First, funds can only be used to assist eligible activities that fulfill one or more of the following three national objectives: (1) benefiting low- and moderate-income persons; (2) aiding in the prevention or elimination of slums or blight; and (3) meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs. Second, the grantee must spend at least 60 percent of its funds over a period of up to 3 years specified by the grantee in its certification, for activities that address the national objective of benefiting low- and moderate-income persons.

II. PROGRAM PROCEDURES

The program is conducted by metropolitan cities and urban counties which must submit certain certifications along with a statement as to how they propose using the funds for community development activities. The grant amount is based on a formula that considers the community's population, poverty level, extent of overcrowded housing, age of housing, and growth lag.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

CDBG funds (including program income generated by activities carried out with grant funds) may only be used for the following activities:

- (1) The acquisition of real property; (2) the acquisition, construction, reconstruction, or installation of public works, facilities and site, or other improvements; (3) code enforcement in deteriorated or deteriorating areas; (4) clearance, demolition, removal, and rehabilitation of buildings and improvements; (5) special projects for removal of material and architectural barriers that restrict accessibility by elderly and handicapped individuals; (6) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (7) disposition of real property acquired under this program; (8) provision of public services (subject to limitations contained in regulations and to certain HUD determinations); (9) payment of non-Federal share for a grant program that is part of the assisted activities; (10) payment to complete a Title 1 Federal Urban Renewal project; (11) relocation assistance; (12) planning activities; (13) administrative costs; (14) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (15) assistance to neighborhood-based nonprofit organizations; (16) activities related to energy use; (17) assistance to private, for-profit business, when necessary or appropriate to carry out an economic development project; (18) rehabilitation or development of housing assisted under Section 17 of the United States Housing Act of 1937; and (19) substantial reconstruction of housing owned and occupied by low- and

moderate-income persons (subject to certain HUD determinations). (24 CFR 570.200–207; 42 USC §5305)

- Each activity funded must meet one of the following three national objectives: (1) benefit low- and moderate-income persons; (2) aid in the prevention or elimination of slums or blight; or (3) meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs. (24 CFR 570.208; 42 USC §5304(b)(3))
- To be consistent with the primary objective of the Housing and Community Development Act of 1974, each grantee must, over the period specified in its certification, spend at least 60 percent of its CDBG funds for activities that benefit low- and moderate-income persons. (42 USC §5304(b)(3))

Suggested Audit Procedures

- Identify activities funded in whole or in part with the CDBG entitlement grant or program income. ("Program income" is defined in 24 CFR Part 570, J.)
- Test expenditure and related records for selected activities.
- For those selected activities, review documentation and determine whether objectives were met.
- Determine whether at least 60 percent of funds were spent on activities that benefit low- and moderate-income persons.

Compliance Requirement

No more than 20 percent of the total grant plus program income may be expended for planning and administration. (24 CFR 570.200(g), 570.201(e). The amount of CDBG funds used for public services shall not exceed 15 percent of each grant. A recipient that obligated more CDBG funds for public services than 15 percent of its grant funded from Federal fiscal year 1982 and 1983 appropriations (excluding any assistance received pursuant to Public Law 98–8) may obligate more CDBG funds than 15 percent so long as the amount obligated in any program year does not exceed the percentage or amount obligated in Federal fiscal year 1982 or 1983, whichever method of calculation yields the higher amount.

Suggested Audit Procedures

- Ascertain the total amount of the grant plus program income received during the program year.
- Review the financial records and ascertain whether the amount expended for planning, administration, and public services exceeded the limit.

Compliance Requirement

Entitlement grant recipients may have loans guaranteed by HUD under Section 108. Guaranteed loan funds may only be used for the following activities: (1) acquisition of real property; (2) housing rehabilitation; (3) rehabilitation of publicly owned real property; (4) eligible CDBG economic development activity; (5) related relocation, clearance, and site improvements; and (6) payment of interest and issuance costs. In addition, all projects and activities must either principally benefit low- and moderate-income persons, aid in the elimination or prevention of slums and blight, or meet other community development needs having a particular urgency. (24 CFR 570.700–705; 42 USC §5308)

Suggested Audit Procedures

- Identify activities funded in whole or in part with loan funds guaranteed under Section 108.
- Determine if activities were eligible and met one of the three national objectives.

B. Eligibility

The auditor is not expected to test for eligibility. (However, the auditor is expected to test for eligibility of activities carried out with assistance under the program—see section A)

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

The Grantee Performance Report (Forms HUD–4949.1–4949.7) is due from each grantee 90 days after the end of its program year. (24 CFR 570.507)

Suggested Audit Procedures

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

Compliance Requirement

CDBG funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a Request for Release of Funds (RROF) and environmental certification, except for exempt activities under 24 CFR 58.34. (24 CFR 58 J, 58.22, 58.33–35, 570.200(h), 570.462)

Suggested Audit Procedures

- Examine HUD's approval of the RROF and environmental certification and note receipt dates.
- Review the expenditure and related records and determine the dates that the funds were obligated or expended.
- Determine the dates that funds, other than CDBG funds that were subsequently reimbursed by CDBG funds, were obligated or expended.

Compliance Requirement

Projects must have an environmental review unless they meet criteria specified in the regulations that would exempt or exclude them from RROF and environmental certification requirements. (24 CFR 58.34, 58.35)

Suggested Audit Procedures

- Select a sample of projects for which expenditures have been made and determine whether environmental reviews have been performed.
- For any project where an environmental review was not performed, ascertain whether a written determination was made that the review was not required.
- Ascertain whether documentation exists from a qualified legal source that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR 58.34, 58.35.

Compliance Requirement

The grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds subject to all program rules. (24 CFR 570.504)

Suggested Audit Procedures

- Review the financial records of a sample of activities likely to produce program income (e.g., loans or land acquisition), and determine the amount of income, if any, generated by each activity.
- Review the grantee financial records to determine if program-generated income has been returned to the CDBG program.

Compliance Requirement

The grantee is required to enter into written agreements with its subrecipients that meet certain criteria before disbursing funds to the subrecipients. (24 CFR 570.503)

Suggested Audit Procedures

- Examine a sample of the grantee's subrecipient agreements executed on or after October 1, 1988, to ensure that they contain the required elements.
- Ensure that the grantee is determining that subrecipients are performing adequately as required in 24 CFR 570.501 (effective October 10, 1988).

COMMUNITY DEVELOPMENT BLOCK GRANTS (Small Cities Program)

14.219

I. PROGRAM OBJECTIVES

The objectives of the CDBG Program, Small Cities Program, are the development of viable urban communities, decent housing and a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. This objective is to be achieved through the undertaking of eligible activities that fulfill one or more of three national objectives: (1) benefiting low- and moderate-income persons; (2) aiding in the prevention or elimination of slums or blight; and (3) meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs. In addition to certifying that each activity will meet one of the national objectives, the applicant must certify that not less than 60 percent of each grant (the aggregate of assistance provided) will be used for activities that benefit low- and moderate-income persons. The program period of that grant, from initiation to closeout, must be the time period for meeting the 60 percent benefit test. Compliance with this requirement will be based on a review of all expenditures of grant funds and any program income generated before the closeout of this grant. All applications must include this certification.

II. PROGRAM PROCEDURES

In States that have chosen not to administer the nonentitlement grants, funds are provided by HUD to nonentitlement units of general local government on a competitive basis.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

CDBG funds (including program income generated by activities carried out with grant funds) may only be expended for the following activities:

- (1) The acquisition of real property; (2) the acquisition, construction, reconstruction, or installation of public works, facilities and site, or other improvements; (3) code enforcement in deteriorated or deteriorating areas; (4) clearance, demolition, removal, and rehabilitation of buildings and improvements; (5) special projects for removal of material and architectural barriers that restrict accessibility, by elderly and handicapped individuals; (6) payments to housing owners for losses of rental income incurred for temporarily holding housing for the relocated; (7) disposition of real property acquired under this program; (8) provision of public services (subject to limitations contained in regulations and to certain HUD determinations); (9) payment of the non-Federal share for a grant program that is part of the assisted activities; (10) payment to complete a Title 1 Federal Urban Renewal project; (11) relocation assistance; (12) planning activities; (13) administrative costs; (14) activities, such as acquisition, construction, reconstruction, rehabilitation, or installation that are carried out by public or private nonprofit entities; (15) grants to neighborhood-based nonprofit organization and the like for neighborhood revitalization; (16) activities related to energy use; (17) provision of assistance to private, for-profit entities, when the assistance is necessary or appropriate to carry out an economic development project; (18) the rehabilitation or development of housing

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assisted under Section 17 of the United States Housing Act of 1937; and (19) substantial reconstruction of housing owned and occupied by low- and moderate-income persons (subject to certain HUD determinations). (24 CFR 570.200–207; 42 USC §5305)

- Each activity funded must either benefit low- and moderate-income families; aid in the prevention or elimination of slums or blight; or be certified as a community development need of particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs. (24 CFR 570.489; 42 USC §5305)
- For each grant, the grantee must spend at least 60 percent of its CDBG funds on activities that benefit low- and moderate-income persons.

Suggested Audit Procedures

- Test expenditure and related records to determine whether funds were spent for eligible acitivites.
- Determine whether at least 60 percent of funds were spent on activities that benefit low- and moderate-income persons.

Compliance Requirement

No more than 20 percent of the total grant plus program income may be expended for planning and administration. (24 CFR 570.200(g))

Suggested Audit Procedures

- Ascertain the total amount of the grant plus program income received during the year.
- Review the financial records and ascertain the amount expended for planning and administration.

B. Eligibility

The auditor is not expected to test for eligibility. (However, the auditor is expected to test for eligibility of activities carried out with assistance under the program—see section A.)

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

A Performance Assessment Report (4052) must be submitted at the completion of grant funded activities. (24 CFR 570.507)

Suggested Audit Procedure

See Federal Financial Reports (IV) in the "General Requirements" section of this document.

E. Special Tests and Provisions

Compliance Requirement

CDBG funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a RROF and environmental certification, except for exempt activities under 24 CFR 58.34. (24 CFR 58 J, 58.21, 58.22, 570.301(e), 570.461(c))

Suggested Audit Procedures

- Examine HUD's approval of the RROF and environmental certification, and note receipt dates.
- Review the expenditure and related records and determine the dates that the funds were obligated or expended.

Compliance Requirement

Projects must have an environmental review unless they meet criteria specified in the regulations that would exclude them from the requirement. (24 CFR 58.34, 58.35)

Suggested Audit Procedures

- Select a sample of projects on which expenditures have been made and determine whether environmental reviews have been performed.
- For any project where an environmental review was not performed, ascertain whether a written determination was made that a review was not required.
- Ascertain whether documentation exists from a qualified legal source that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR 58.34, 58.35.

Compliance Requirement

The grantee must accurately account for any program income generated from the use of

CDBG funds received before closeout of the grant. In addition, any program income received after closeout of the grant must be accounted for if another grant was open at the time that the program income was received. (24 CFR 570.504, 570.506)

Suggested Audit Procedures

- Determine if there were any closed-out projects funded under predecessor programs.
- Review the financial records of a sample of activities likely to produce program income (e.g., loans or land sold as surplus from older projects), and determine the amount of income, if any, generated by each activity.
- Review the grantee financial records to determine if program-generated income has been returned to the CDBG program, if applicable.

SECTION 312 REHABILITATION LOANS

14.220

I. PROGRAM OBJECTIVES

The Rehabilitation Loan Program is designed to provide (1) owners of real property within urban homesteading areas or (2) owners of real property for which rehabilitation is necessary or appropriate for carrying out CDBG activities with affordable low-interest property rehabilitation loans. These loans are made at below-market interest rates to encourage owners to repair of the property to local standards. This action by the property owner is necessary to help the locality meet the program objectives aimed at neighborhood improvement and the correction of housing and building code violations.

II. PROGRAM PROCEDURES

Program procedures for Section 312 Loans are fully covered in HUD Handbook 7375.01 REV 2, Section 312, *Rehabilitation Loan Financing*, dated December 1986. The basic procedures for the program are as follows:

- Localities that administer CDBG programs or Section 810 urban homesteading programs are notified by a HUD Field Office with jurisdiction that funds are available during the fiscal year and are notified of the conditions under which the funds will be distributed during that period.
- Localities will then solicit applications from eligible property owners and provide technical assistance and guidance in developing and preparing applications for property rehabilitation assistance.
- This technical assistance may include inspection of the property, preparation of the specification for work items to be included in the loan, collection of title and credit information, preparation of the actual application, and a credit and underwriting review.
- Localities with loan approval authority may review and approve single family loans and submit the approved loan to HUD for obligation. For all other loans, localities will submit the loan application to a HUD Field Office for final review and approval or other appropriate action.
- After the loan is approved and the funds are obligated in the name of the borrower by the HUD Regional Accounting Division, the locality continues to assist the borrower during the loan settlement and construction phases of the loan process. This assistance includes the maintenance of a loan construction escrow account for the borrower into which loan funds provided by the Section 312 Cash Management System are briefly deposited.
- The locality monitors the construction work and calls for draws on construction funds from HUD's cash management contractor when needed at the various stages of the work. The needed funds are transferred to the bank designated by the locality and are disbursed by the locality to meet payment demands of the loan transaction.
- When the work is completed, the account is closed with the cash management contractor, and at a predetermined date, the loan is transferred to the Section 312 master servicer for collection. The locality assists the borrower in closing the transaction and transferring all required loan documents to the master servicer for full servicing.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Loans approved by the locality with loan approval authority, or recommended to HUD by localities without this authority, must be for the rehabilitation of properties that are certified by the locality as necessary or appropriate for carrying out CDBG activities or that are located in areas approved for Section 810 urban homesteading activity.

Suggested Audit Procedures

- Examine application to see if property is certified as CDBG eligible.
- Examine final statements of objectives and projected use of funds to determine the basis for the certification or review the locality's Section 810 homesteading plan to see if property is located in a Section 810 neighborhood.

Compliance Requirement

Determine if the items funded by the loans are allowed as eligible items under the program, for example, used to fund eligible construction items, refinance existing debt if eligible, or pay for related loan expenses.

Suggested Audit Procedure

Spot check loan applications against work items allowed in HUD Handbook 7375.01 REV 2, Chapter 3. Since HUD staff reviews loan applications for this item of compliance and/or monitors the locality with regard to this item, the audit procedure should be on a sampling basis and focus on the eligible work items included in the construction contract. These items should be cross-matched against the localities' requirement for meeting code violations or for complying with locally developed and approved rehabilitation standards.

Compliance Requirement

Determine if the locality has a procedure for a systematic review of loan applications that includes a sound underwriting review before loan submission to HUD or before approval under local loan approval authority.

Suggested Audit Procedure

Discuss the loan review and underwriting procedure with the locality to determine if it is practicing reasonable and appropriate review and underwriting procedures for loan processing. The latest version of HUD Handbook 7375.01 REV 2 contains underwriting standards that the locality should follow in the review and approval of loans.

Compliance Requirement

Determine whether loans approved exceed the maximum statutory limits for type and size of property to be rehabilitated.

Suggested Audit Procedures

Examine a sample of approved loan applications for compliance with loan limit requirements. (See HUD Handbook 7375.01 Rev 2, Chapters 2–5.)

Compliance Requirement

The locality must maintain a proper rehabilitation escrow account in accordance with the current Section 312 cash management notice, and funds deposited to that account must be properly accounted for. All loan accounts should be properly closed-out when all funds for the individual loan transactions are disbursed and the loans transferred to the HUD master servicer for servicing. Disposition of funds statements in the individual loan files should reflect full and proper disbursement of the approved loan amount and funds disbursed to the escrow account. (HUD Notice 86–13, Section 2.A.4 and 2.F.; HUD Handbook 7375.01 REV 2, Chapter 11).

Suggested Audit Procedures

- Review bank escrow accounts to determine whether funds drawn are being deposited into accounts and whether disbursements from accounts are within the time limits for disbursement of funds.
- Determine whether vouchers requesting deposited funds from HUD's cash management contractor are completed, forwarded to the cash management contractor and recorded and filed by the locality.

B. Eligibility

The auditor is not expected to test for eligibility. (However, the auditor can determine

if certain minimum program requirements as outlined in section A above (i.e., program eligibility) have been met. The auditor should determine whether or not the locality has a valid and active CDBG program or an active Section 810 urban homesteading program that will allow it to approve or submit loans to HUD for approval.)

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements. (However, the locality must demonstrate an ability to provide administrative support to administer the program properly. These funds are generally provided through CDBG funding or general revenue funds provided by the locality.)

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

There are no special tests or provisions.

URBAN DEVELOPMENT ACTION GRANTS

14.221

I. PROGRAM OBJECTIVES

The objective of the Urban Development Action Grant (UDAG) Program is to stimulate economic development activity that will strengthen the economic, employment, and tax base in cities, urban counties, and Indian tribes experiencing severe economic distress.

II. PROGRAM PROCEDURES

Funds are provided for specific, approved projects to metropolitan cities, urban counties, small cities, and Indian tribes meeting certain criteria that qualify them either as "distressed" or as containing "pockets-of-poverty" and having demonstrated results in the areas of housing and equal opportunity. The private sector must actively participate for the locality to receive UDAG funding.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

The city, urban county, or Indian tribe receiving the UDAG grant is required to use the grant funds only for the specific purposes described in the UDAG Grant Agreement. (24 CFR 570.462(a))

Suggested Audit Procedures

- Review the grant agreement, any amendments, and a closeout agreement if one exists, and determine the allowable purposes and amounts.
- Test the expenditures of the UDAG funds to determine if they were made for allowable purposes.

B. Eligibility

The auditor is not expected to test for eligibility. (However, the auditor is expected to test for eligibility of activities carried out with assistance under the program.)

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

A UDAG recipient that qualifies because it is a city or county that contains a pocket-of-poverty is required to pay 20 percent of the amount of the grant for the approved project. The match must be in cash and expended on direct costs of the project. (24 CFR 570.466(c)(2)(i))

Suggested Audit Procedures

- Review the grant agreement and ascertain if the grantee qualified for the program because it contains a pocket-of-poverty. (The grant number will end with a "P.")
- Review the financial records and ascertain the amount reported as direct costs.
- Determine the amount and source of funds used to fulfill the matching requirements.

D. Special Reporting Requirements

Compliance Requirement

A semi-annual progress report (HUD Form 3440) must be submitted for each project. (24 CFR 570.461(f))

Suggested Audit Procedure

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

Compliance Requirement

CDBG funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended

before receipt of HUD's approval of a RROF and environmental certification, except for exempt activities under 24 CFR 58.34 (24 CFR 58 J, 58.22, 58.33–35, 570.200(h), 570.462)

Suggested Audit Procedures

- Examine HUD's approval of the RROF and environmental certification, and note receipt dates.
- Review the expenditure and related records and determine the dates that the funds were obligated or expended.

Compliance Requirement

Projects must have an environmental review unless they meet criteria specified in the regulations that would exclude them from RROF and environmental certification requirements. (24 CFR 58.34, 58.35)

Suggested Audit Procedures

- Select a sample of projects on which expenditures have been made and determine whether environmental reviews have been performed.
- For any project where an environmental review was not performed, ascertain whether a written determination was made that a review was not required.
- Ascertain whether documentation exists from a qualified legal source that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR 58.34, 58.35.

Compliance Requirements

- Participating public and private sector organizations must fulfill the obligations specified in the legally binding commitments, grant agreements, and any amendments. (24 CFR 570.461(b))
- Loan repayments, program income, and other recapture provisions must be accounted for in accordance with the terms of the grant agreement. The recipient must report to HUD the use of miscellaneous revenues for 5 years. (24 CFR 570.461(e))

Suggested Audit Procedures

- Review the grant agreement, any amendments, or closeout agreements if such exist, and obtain an understanding of the obligations of each participating party.
- Test the financial and other records, and determine whether loan repayments, program income, and other revenues specified in the grant agreement were received from public and private sector organizations on a timely basis. Test expenditures made from program revenues.
- Determine procedures for obtaining and maintaining required supporting documentation, for example, photographs, architect/engineer certifications, construction reports, loan closing documents, and land sale documents. Evaluate for accuracy.
- Examine selected required documents and determine whether there is compliance with the terms of the grant agreement and the prescribed procedures.

COMMUNITY DEVELOPMENT BLOCK GRANT (State's Program)

14.228

I. PROGRAM OBJECTIVES

The primary objective of the State CDBG Program is the development of viable urban communities by providing decent housing and a suitable living environment and expanded economic opportunities, principally for persons of low- and moderate-income. This is to be achieved in two ways. First, funds can only be used to assist eligible activities that fulfill one or more of the following three national objectives: (1) benefiting low- and moderate-income persons; (2) aid in the prevention or elimination of slums or blight; and (3) meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs. Second, the grantee must spend at least 60 percent of its funds over a period of up to 3 years specified by the grantee in its certification, for activities that address the national objective of benefiting low- and moderate-income persons.

II. PROGRAM PROCEDURES

Funds are provided, according to a statutory formula, to those States, that elect to administer the CDBG nonentitlement funds. The States, in turn, distribute the funds to small units of general local government that do not qualify for entitlement grants.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to Federal statutory requirements, each State has the authority to issue rules consistent with Federal statutes and regulations. These rules should be reviewed before beginning the audit.

A. Types of Services Allowed or Unallowed

Compliance Requirements

Section 105(a) of the Housing and Community Development Act (42 USC §5305) prescribes eligible activities under the State CDBG Program.

- Funds may be awarded only for the following activities: (1) the acquisition of real property; (2) the acquisition, construction, reconstruction, or installation of public works, facilities and site, or other improvements; (3) code enforcement in deteriorated or deteriorating areas; (4) clearance, demolition, removal, and rehabilitation of buildings and improvements; (5) special projects for removal of material and architectural barriers that restrict accessibility by elderly and handicapped individuals; (6) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (7) disposition of real property acquired under this program; (8) provision of public services (subject to limitations contained in regulations and to certain HUD determinations); (9) payment of the non-Federal share for a grant program that is part of the assisted activities; (10) payment to complete a Title 1 Federal Urban Renewal project; (11) relocation assistance; (12) planning activities; (13) administrative costs; (14) activities, such as acquisition, construction, reconstruction, rehabilitation, or installation which are carried out by public or private nonprofit entities; (15) grants to neighborhood-based nonprofit organizations and the like for neighborhood revitalization; (16) activities necessary to the development of a comprehensive community-wide strategy related to energy use; (17) provision of assistance to private, for-profit entities when

the assistance is necessary or appropriate to carry out an economic development project; (18) the rehabilitation or development of housing assisted under Section 17 of the United States Housing Act of 1937; and (19) substantial reconstruction of housing owned and occupied by low- and moderate-income persons (subject to certain HUD determinations). (24 CFR 570.200–207; 42 USC §5305)

- The Housing and Community Development Act requires the State to certify that the aggregate use of the CDBG funds it receives, over a period specified by the State not to exceed 3 years, shall principally benefit low- and moderate-income persons. This requirement means that not less than 60 percent of the funds are used in this manner. In addition to this principal benefit test, each activity that the State funds must either benefit low- and moderate-income families; aid in the prevention or elimination of slums or blight; or meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available. The State must retain documentation justifying its certifications. (24 CFR 570.200; 42 USC §5304(b)(3))

Suggested Audit Procedures

- Determine whether the State's systems define whether activities are eligible and meet a national objective, monitor its grant recipients, closeout, and audit management and control, according to the subject requirements.
- Test State records to establish that, for the period selected by the State in its certification, 60 percent of the funds made available to local governments for activities actually benefited low- and moderate-income persons.

B. Eligibility

The auditor is not expected to test for eligibility. (However, the auditor is expected to test for eligibility of activities carried out with assistance under the program.)

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The State may use up to $100,000 of its grant funds for administrative purposes. In addition to this amount, up to 2 percent of the grant may be expended at the State level for administrative costs provided such funds are matched from State resources on a one-to-one basis. All administrative funds, including the State matching funds, which may be in-kind contributions, must be used to carry out the State's responsibilities.

Suggested Audit Procedures

- Review the financial and related records and determine the amount of CDBG funds used for administrative costs and if the limitations were exceeded.
- Determine the amount and source of funds used by the State for matching administrative costs.
- Review costs on a sample basis for eligiblity.

D. Special Reporting Requirements

Compliance Requirement

A performance and evaluation report must be submitted to HUD by October 1 of each year for each grant still active. (24 CFR 570.497; 42 USC §5304(d))

Suggested Audit Procedure

See Federal Financial Reports in "General Requirements" section of this document.

E. Special Tests and Provisions

Compliance Requirement

The State is responsible for conducting reviews of local government recipients to ensure that:

- Recipients carried out activities in a timely manner.
- Activities meet the requirements of Title 1 of the Housing and Community Development Act of 1974, as amended (42 USC §5301 *et seq.*) and other applicable laws. (24 CFR Part 570, 1).
- Recipients have a continuing capacity to carry out their activities in a timely manner.

Suggested Audit Procedures

Test State's review of recipients to ensure that coverage is adequate to meet review requirements and that conclusions are documented and problems or findings are communicated to recipients, tracked, and adequately resolved.

Compliance Requirement

The State must establish recordkeeping requirements for itself and units of general local government receiving CDBG funds from the State that are sufficient to facilitate HUD's review of States and to facilitate State reviews and audits of recipients. (24 CFR 570.496)

Suggested Audit Procedures

- Review recordkeeping requirements established for units of general local government and evaluate whether they are sufficient for State reviews and audits.
- Ensure that State records are adequate for monitoring its recipients when the State determines if they are complying with requirements, particularly if they are funding eligible activities and complying with the national objectives.

Compliance Requirement

For planning and administration costs, the combined expenditures of the State and units of general local governments may not exceed 20 percent of the State's allocation for any given year.

Suggested Audit Procedures

- Review the State processes for reviewing and approving expenditures for planning and administration. Evaluate for adequacy.
- Ascertain the percentage expended by the State and local government recipients for administrative costs.

Compliance Requirements

The State must assume the environmental oversight responsibilities and functions of HUD under Section 104(f), Housing and Community Development (HCD) Act, (42 USC §5304(f)) The State must:

- Require each of its general local governments to perform as a responsible Federal official in carrying out all HUD environmental review requirements under 24 CFR 58, National Environmental Policy Act (NEPA), and other applicable authorities.
- Review and approve each recipient's RROF in accordance with the procedures provided under 24 CFR 58 J.
- Make sure that each recipient observes the statutory requirement that funds cannot be expended or obligated before the State approves its RROF and environmental certification, except as otherwise provided specifically in regulation or authorized by law.
- Monitor and provide technical assistance to recipients to ensure compliance with the environmental authorities (24 CFR 58; 570.495) and the adequacy of environmental reviews.

Suggested Audit Procedures

- Examine the State's approval of the RROF and environmental certification, and note receipt dates.
- Obtain selected recipient records, examine the necessary certifications, review the expenditure and related records, and determine the dates the funds were obligated and expended.
- Verify with selected recipients the availability of technical assistance.

Compliance Requirement

Projects must have an environmental review unless they meet criteria specified in the regulations that would exclude them from RROF and environmental certification requirements. (24 CFR 58.34, 58.35)

Suggested Audit Procedures

- Select a sample of projects for which expenditures have been made and determine whether environmental reviews have been performed.
- For any project where an environmental review was not performed, ascertain whether a written determination was made that a review was not required.
- Ascertain whether documentation exists from a qualified legal source that any determination not to make an environmental review was made consistent with the criteria contained in 24 CFR 58.34, 58.35.

PUBLIC AND INDIAN HOUSING

14.850

I. PROGRAM OBJECTIVES

The objective of the Public and Indian Housing Program is to provide decent, safe, and sanitary housing and related facilities for eligible low-income families and the elderly through an authorized Public Housing Authority (PHA) or Indian Housing Authority (IHA).

II. PROGRAM PROCEDURES

Grants are made by HUD to PHAs on the basis of housing needs to ensure the lower income character of the projects operated by PHAs.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- The cost of development, modernization (Supplement 14.852, Comprehensive Improvement Assistance Program), and operations must be accounted for separately to determine the utilization of grants made by HUD for such purposes. (24 CFR 941.103, 24 CFR 941.505, 24 CFR 969.4)
- Operating subsidy obligated for each PHA must be calculated and obligated in accordance with requirements. (24 CFR 990)

Suggested Audit Procedures

- Obtain a copy of the PHA's annual contributions contract (forms HUD 53010 and 53011) between the PHA and HUD, and review its requirements.
- Review financial records to determine whether operating funds were used to pay development costs.
- Review the expenditures for development, modernization, and operating subsidy to determine whether the costs incurred by the PHA/IHA are eligible costs under program requirements. (24 CFR 905, 968, 990)

B. Eligibility

Compliance Requirements

- PHA is required to accept applications for admission to the projects, determine whether the applicants are initially eligible, and reexamine family composition and contribution to rent and utilities. (24 CFR 912, 24 CFR 913, 24 CFR 960)
- PHA is required to calculate its operating subsidy eligibility in accordance with the Performance Funding System. (24 CFR 990)

Suggested Audit Procedures

- Review the procedures for accepting and reviewing applications, determining occupancy and subsidy eligibility, and prescribing unit sizes. Evaluate for adequacy.
- Review selected applicant/tenant files and determine adherence to prescribed procedures.
- Review PHA procedures for recertifying and evaluate for adequacy.
- Review selected Tenant Data Summary Forms (HUD 50058) for completeness. Trace data to supporting documentation.
- Review the calculation of operating subsidy eligibility, including mandatory adjustments.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirements

The following financial reports must be submitted periodically for this program:

- Form HUD 52484—Public Housing Program—Development Cost/Budget Statement (annual).
- Form HUD 52595—Balance Sheet for Section 8 and Public Housing (semi-annual).
- Form HUD 52596—Statement of Income and Expense and Changes in Accumulated Surplus or Deficit from Operations (annual).
- Form HUD 52599—Statement of Operating Receipts and Expenditures (semi-annual).
- Form HUD 52603—Statement of Initial Operating Income and Expense (annual).
- Form HUD 52427—Actual Development Cost Certificate (annual).
- Form HUD 52723—Calculation of Performance Funding System Operating Subsidy and supporting schedules (annual).
- Form HUD 52722A—Calculation of Allowable Utilities Expense Level (annual).
- Form HUD 52722B—Adjustment for Utility Consumption and Rates. @BULLET = Form HUD 52564—Operating Budget (annual).
- Form HUD 5402A—Requisition for Development and Modernization Funds (as required).
- Actual Development Cost Certificate (submitted at completion of project).

Suggested Audit Procedure

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

There are no special tests or provisions.

PUBLIC AND INDIAN HOUSING
(Public Housing—Comprehensive Improvement Assistance Program)

14.852

I. PROGRAM OBJECTIVES

The objectives of the Public Housing-Comprehensive Improvement Assistance Program (CIAP) are to improve the physical condition and upgrade the management and operation of existing public housing projects.

II. PROGRAM PROCEDURES

The program is provided to PHAs, including IHAs, according to physical need and management and modernization capability in accordance with modernization plans and budgets approved by HUD Field Offices. Before fiscal year 1987, the improvements were financed over 20 years. Beginning in fiscal year 1987, the improvements are funded as grants. However, in all cases, the PHAs must operate any project funded for modernization as public housing for 20 years.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Each management or physical improvement work item approved and funded by HUD is set forth in the Comprehensive Assessment/Program Budget (HUD–52825). (24 CFR 968.5(i)(2), CFR 968.15)

Suggested Audit Procedure

Review the reasonableness of distribution of costs among projects; be particularly alert to costs improperly charged to this program.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirements

- PHA must submit a Schedule/Report of Modernization Expenditures (HUD–52826), comparing PHA actual expenditures with the latest HUD-approved Comprehensive Assessment/Program Budget (HUD–52825). (24 CFR 968.14a)
- PHA must submit an Actual Modernization Cost Certificate (HUD–53001) on completion of a modernization program. (24 CFR 968.17)

Suggested Audit Procedures

- Obtain copies of reports and review for completeness.
- Trace data in selected reports to supporting documentation.

Compliance Requirements

- PHA must submit a Requisition for Modernization Funds (HUD–5402A) to obtain funds for the modernization program. (24 CFR 968.13)
- PHA must submit an Actual Modernization Cost Certificate (HUD–53001) on completion of a modernization program. (24 CFR 968.17)

Suggested Audit Procedure

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

Compliance Requirement

Contracts for construction must contain a clause prohibiting the use of lead-based paint. (24 CFR 35)

Suggested Audit Procedures

Examine selected construction contracts and identify prohibition against the use of lead-based paint.

Compliance Requirement

Procurement actions must comply with Section 306 of the Annual Contributions Contract. In addition, for each construction and equipment contract over $10,000, PHA must conduct competitive bidding except for procurements under the HUD consoliated supply program.

Suggested Audit Procedures

- Obtain a copy of the PHA procurement policy as adopted by the Board of Commissioners and review for compliance with Section 306 of the Annual Contributions Contract.
- Test selected procurement actions for compliance with Section 306, especially in recognition of those procurements requiring prior approval by HUD.
- Review specification advertising notices and bid tabulation documents to ensure that competitive bidding occurred and that the competitive bidding process was not made so restrictive as to favor a specific contractor.

Section E. DEPARTMENT OF THE INTERIOR

REGULATION OF SURFACE COAL MINING AND SURFACE EFFECTS OF UNDERGROUND COAL MINING

15.250

I. PROGRAM OBJECTIVES

The objective is to assist States in developing and carrying out their approved regulatory programs to protect society and the environment from the adverse effects of surface and underground coal mining operations while assuring that the coal supply essential to the Nation's energy requirements is provided.

II. PROGRAM PROCEDURES

The program is administered by the Office of Surface Mining Reclamation and Enforcement (OSMRE) for States to develop, administer, and enforce permanent regulatory programs approved by the Secretary of the Interior. An agency designated by the State Governor becomes the regulatory authority to submit grant applications and develop, administer, and enforce the program. A State may regulate surface and underground coal mining and reclamation on both State and Federal lands. To regulate Federal lands a State must have a cooperative agreement with the Secretary of the Interior.

II. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility

Compliance Requirement

The State is required to obtain approval of a permanent regulatory program to be administered and enforced by a single agency designated by the Governor to receive and administer grants including cooperative agreements for Federal lands and small operator assistance. The State agency is required to monitor compliance of any subrecipients. (Code of Federal Regulations (CFR) Title 30, Chapter VII, 735.12(a); (b), (c); 735.21(a)(4); 795.6)

Suggested Audit Procedures

- Verify that the recipient either was developing or had an approved permanent regulatory program in effect during the grant period.
- Examine records to determine whether the State monitored the compliance of subrecipients.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

The funding ratio for the administration and enforcement grant is linked to that of a previous program development grant. (A State may have received up to 80 percent Federal assistance for the first year, 60 percent Federal assistance for the second year, and up to 50 percent Federal assistance for any subsequent time period that a program development grant was in effect.) The matching percentage of Federal assistance is reduced to the extent a State has received program development grants.

The State is entitled to receive up to 100

percent of the cost of administering and enforcing a regulatory program on Federal lands in States that have a regulatory program approved by the Secretary of the Interior. This amount cannot be more than the amount it would cost the Federal Government to administer and enforce the program if there were no cooperative agreement. (CFR Title 30, Chapter VII, 735.15(a), (b); 735.16(a), (b), (c))

Suggested Audit Procedures

- Ascertain the amount reported as total costs and Federal share from the Financial Status Report (SF–269).
- Review supporting documentation to assure that charges are appropriate and that the matching requirement was met.
- Review the State accounting system to determine adequacy for documentation of program costs.
- Review the State procurement procedures to determine if they provide full and open competition consistent with the standards as provided by 43 CFR, 12.76.

D. Special Reporting Requirements

Compliance Requirement

A State agency must require all employees who perform any function or duty under the Act (Public Law 95–87) to file a statement and supplement to identify financial interest in any surface or underground coal mining operation. Remedial action must be taken by the State agency to resolve prohibited financial interest situations. (CFR Title 30, Chapter VII, 735.26, (a), (b), (c))

Suggested Audit Procedure

Review and test the procedures and controls for ensuring that employee financial interests are adequately documented and monitored, and that conflicts are properly resolved.

E. Special Tests and Provisions

There are no special tests or provisions.

ABANDONED MINE LAND RECLAMATION PROGRAM

15.252

I. PROGRAM OBJECTIVES

The objectives of the Abandoned Mine Land (AML) Reclamation Fund are

(1) To protect public health, safety, general welfare, and property from extreme danger of adverse effects of coal mining practices.

(2) To protect public health, safety, and general welfare from adverse effects of coal mining practices.

(3) To restore land and water resources and the environment previously degraded by adverse effects of coal mining practices including measures for the conservation and development of soil, water (excluding channelization), woodland, fish and wildlife, recreation resources, and agriculture productivity.

(4) To research demonstration projects relating to the development of surface mining reclamation and water quality control program methods and techniques.

(5) To protect, repair, replace, construct, or enhance public facilities, such as utilities, roads, recreation, and conservation facilities, adversely affected by coal mining practices.

(6) To develop publicly owned land adversely affected by coal mining practices including land acquired as provided in this title for recreation and historic purposes, conservation and reclamation purposes, and open space benefits.

II. PROGRAM PROCEDURES

The program is authorized by Title IV of Surface Mining Control and Reclamation Act of 1977, Public Law 95–87. Each State having an approved Title V program and each eligible Indian tribe may (1) request approval of a State/tribal Reclamation Program consisting of the plan and annual submissions; (2) each State/tribe having within its borders coal mined lands eligible to the Secretary a State Reclamation Plan and annual projects to carry out the purposes to his title; (3) the Secretary shall not approve, fund, or continue to fund a State abandoned mine reclamation program unless that State has an approved State regulatory program; and (4) if the Secretary determines that the State/tribe has developed and submitted a program for reclamation of abandoned mines and has the ability and necessary legislation to implement the provisions of this title, sections 402 and 410 excepted, the Secretary shall approve such State/tribal program and shall grant to the State/tribe exclusive responsibility and authority to implement the provisions of the approved program; provided, that the Secretary shall withdraw such approval and authorization if he determines that the State/tribal program is not in compliance with the procedures, guidelines, and requirements established under the Act.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility

Compliance Requirements

The State/tribe must have complied with items in "Program Procedures" above, and all projects in the grant must meet the eligibility, ranking, and selection factors contained in the

appropriate approved State/tribe AML Reclamation Plan.

The State/tribe is required to operate a reclamation program that determines eligibility of projects and selection according to the ranking factors in the approved State/tribe Plan.

Suggested Audit Procedures

- Determine whether actions under the grant are conducted in accordance with the State/Indian Tribal Reclamation Plan.
- Determine whether administrative and construction costs as defined are charged properly, and review supporting documents to assure that charges are appropriate.
- Review the State accounting system to determine adequacy for documentation of program costs.
- Review the State procurement procedures to determine whether they provide full and open competition consistent with the standards as provided by 43 CFR, 12.76.
- Ascertain that procedures used to conduct the program are being followed and are adequate to accomplish and document the program accomplishments.
- Test for the following:
  - — Approved Title V program, (States only).
  - — Approved Title IV program.
  - — Annual project submission.
  - — Project eligibility.
  - — Ranking and selection factors.
  - — Adequate public participation in program.
  - — Timely submission and thoroughness of reports.
  - — Accountability for equipment.
  - — Use of National AML Inventory.
  - — State AML Fund Receipts for Federal grant, donations, fees, incidental recovery of coal.
  - — Conduct of appraisals on private land.
  - — Placement of liens as required by plan.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The AML Grant Program is 100-percent funding except for the acquisition of real property in which case the Federal Government is limited to a 90-percent share of the acquisition.

Suggested Audit Procedure

Realty work and appraisal services should be examined to determine whether procedures set out and referenced in the approved AML Plan were followed and all necessary approvals obtained.

D. Special Reporting Requirements

Compliance Requirement

In addition to the General Requirements for Financial Reports, each State/tribe receiving a grant under the Program must comply with reporting requirements found in the Office of Surface Mining (OSM) Federal Assistance Manual for OSM 51 (Form), Performance Report/Program Narrative Statement.

Suggested Audit Procedure

See Federal Financial Reports in the "General Requirements" section of this document.

E. Special Tests and Provisions

There are no special tests or provisions.

SPORT FISH RESTORATION

15.605

I. PROGRAM OBJECTIVES

The objectives of the Federal Aid in Fish Restoration Program are to restore, conserve, and enhance sport fish populations and to provide for public use and enjoyment of these fisheries' resources.

II. PROGRAM PROCEDURES

The U.S. Fish and Wildlife Service makes program and project grants to State fish and game agencies. Funds are apportioned to each State through a statutory formula. The State may submit either a comprehensive plan or project proposals to the Service. When either is approved, the State is reimbursed for up to 75 percent of the cost of the work performed.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

The amount of overhead or indirect costs charged to projects under this program for central services provided from outside the fish and wildlife agency may not exceed 3 percent of the annual apportionment to the State. (50 CFR 80.15(d))

Suggested Audit Procedures

- Ascertain the annual apportionment.
- Review the indirect cost presentation, and determine the amount of central service costs included in the rate for this program.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

The State fish and wildlife agency must certify annually the number of paid fishing license holders in the State. A paid license holder is one person, regardless of the number of licenses, tags, permits, or stamps held. Free licenses or licenses issued for a token fee may not be counted. (50 CFR 80.10)

Suggested Audit Procedure

- Review the procedures for determining the number of license holders, including the procedures for eliminating multiple licenses issued to one person and fee or token fee licenses, and evaluate for adequacy.

Compliance Requirements

The following financial reports must be submitted periodically for this program.

- Financial Status Report (SF–269).
- Request for Advance or Reimbursement (SF–270).
- Request for Funds (SF–5805) on Letter of Credit via Electronic Funds Transfer and Status of Funds Report

Suggested Audit Procedure

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

Compliance Requirement

The State must not divert hunting or fishing license fees to purposes other than the adminis-

tration of the State fish and game agency. Diversion is defined as the agency losing control over expenditure of license revenues and capital assets, or using such revenues for other than activities of the agency. (50 CFR 80.4)

Suggested Audit Procedures

- Ascertain the revenues from the sale of sport hunting and fishing license sales.
- Review the financial records and ascertain the expenditures for fish and game activities.

WILDLIFE RESTORATION

15.611

I. PROGRAM OBJECTIVES

The objectives of the Federal Aid in Wildlife Restoration Program are to restore, conserve and enhance wildlife populations, provide for public use and enjoyment of these resources, provide training to hunters and archers in the skills, knowledge, and attitudes necessary to be responsible hunters.

II. PROGRAM PROCEDURES

The U.S. Fish and Wildlife Service makes program and project grants to State fish and game agencies. Funds are apportioned to each State through a statutory formula. The State may submit either a comprehensive plan or project proposals to the Service. When either is approved, the State is reimbursed for up to 75 percent of the cost of the work performed, although the formula limits the maximum amount of funds a State can receive in a year.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

The amount of overhead or indirect costs charged to projects under this program for central services provided from outside the fish and game agency may not exceed 3 percent of the annual apportionment to the State. (50 CFR 80.15(d))

Suggested Audit Procedures

- Ascertain the annual apportionment.
- Review the indirect cost presentation, and determine the amount of central service costs included in the rate for this program.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

The State fish and wildlife agency must certify annually the number of paid hunting license holders in the State. A paid license holder is one person, regardless of the number of licenses, tags, permits, or stamps held. Free licenses or licenses issued for a token fee may not be counted. (50 CFR 80.10)

Suggested Audit Procedure

- Review the procedures for determining the number of license holders, including the procedures for eliminating multiple licenses issued to one person and fee or token fee licenses, and evaluate for adequacy.

Compliance Requirements

The following financial reports must be submitted periodically for this program.

- Financial Status Report (SF–269).
- Request for Advance or Reimbursement (SF–270).
- Request for Funds (SF–5805) on Letter of Credit via Electronic Funds Transfer and Status of Funds Report.

Suggested Audit Procedures

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

Compliance Requirement

The State must not divert hunting or fishing license fees to purposes other than the administration of the State fish and game agency. Diversion is defined as the agency losing control over expenditure of license revenues and capital assets, or using such revenues for other than activities of the agency. (50 CFR 80.4)

Suggested Audit Procedures

- Ascertain the revenues from the sale of sport hunting and fishing license sales.
- Review the financial records and ascertain the expenditures for fish and game activities.

OUTDOOR RECREATION—ACQUISITION, DEVELOPMENT, AND PLANNING

15.916

I. PROGRAM OBJECTIVES

The objectives of the Land and Water Conservation Fund Program are to provide financial assistance for the preparation of comprehensive statewide outdoor recreation plans and the acquisition and development of outdoor recreation areas and facilities for the general public.

II. PROGRAM PROCEDURES

Funds are provided to states for preparation of statewide comprehensive outdoor recreation plans, and to States applying on behalf of themselves or local governments for the acquisition and development of public outdoor recreation areas.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The Land and Water Conservation Fund share may be no more than 50 percent. (Sec. 6 (c) Land and Water Conservation Fund Act of 1965 as amended, 90 Stat. 1315)

Suggested Audit Procedures

- Ascertain the total project costs.
- Review the financial records and determine the amount of matching funds.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

The conversion of projects to purposes other than those initially approved must be approved by the Secretary of the Interior and then only if there is a substitution of other recreation properties of at least equal fair market value and of reasonably equivalent usefulness and location. (Sec. 6(f)(3) Land and Water Conservation Fund Act of 1965, as amended, 90 Stat. 1316)

Suggested Audit Procedures

- Determine if there have been any conversions.
- Examine or confirm approvals of conversions and the appraised values of the original and the substitute properties.

Compliance Requirement

Projects must be completed within the project period stated in the Land and Water Conservation Fund Project Agreement Form. (NPS 10–902)

Suggested Audit Procedures

- Review the grant agreement, and ascertain the date that each project is to be completed.
- Examine performance and site inspection reports, and determine whether project is completed.
- Test financial and other related records.

Section F. DEPARTMENT OF JUSTICE

JUVENILE JUSTICE AND DELINQUENCY PREVENTION
Allocation to States

16.540

I. PROGRAM OBJECTIVES

The objective of the Juvenile Justice and Delinquency Prevention Program is to increase the capacity of State and local governments to conduct effective juvenile justice and delinquency prevention programs. States and localities have discretion to determine priorities and to propose programs and priorities based on their analysis of their needs and problems.

II. PROGRAM PROCEDURES

Funds are allocated to the States, in accordance with a statutory formula, upon approval of a 3-year plan. At least two-thirds of the allocation must then be passed to local governments or local private agencies, unless a waiver is approved by the Department of Justice.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- Federal funds can only be expended on services that are directly related to juvenile delinquency programs and that are specified in the supporting documentation in the grant award. (28 Code of Federal Regulations (CFR) 31.303(j–l)
- Federal funds may not be used for lobbying the Executive or Legislative Branches in connection with a specific contract, grant, or loan. (Public Law 101–121, Section 319)
- Construction costs are allowed only for community-based facilities that accommodate fewer than 20 juveniles. (42 USC 5637)

Suggested Audit Procedures

- Review plan or grant award.
- Test expenditure and related records.
- Test for funds used for lobbying purposes.
- Identify construction costs and review plans for such projects.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The State must finance 50 percent of planning, administrative and construction costs with its own funds. (28 CFR 31.301(c))

Suggested Audit Procedures

- Review financial records and reports and ascertain total costs for planning, administration, and construction.
- Determine amount and manner in which State share was met.

D. Special Reporting Requirements

Compliance Requirement

The following financial reports must be submitted periodically for this program:

- Financial Status Report (SF 269).

- Request for Advance or Reimbursement (SF 270).
- Request for Payment on Letter of Credit and Status of Funds Report (SF 183).
- Outlay Report and Request for Reimbursement—Construction Programs (SF 271).
- Federal Cash Transactions Report (SF 272).

Suggested Audit Procedures

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

There are no special tests or provisions.

DRUG CONTROL AND SYSTEMS IMPROVEMENT—FORMULA GRANT

16.579

I. PROGRAM OBJECTIVES

The objectives of this program are to provide financial assistance to States and units of local government for the purpose of increasing the apprehension, prosecution, adjudication, detention, rehabilitation, eradication, and treatment of persons who violate State and local laws relating to the production, possession, and transfer of controlled substances.

II. PROGRAM PROCEDURES

Funds are allocated to the States in accordance with a statutory formula on approval of an application plan. The State is required to distribute to local units of government the amount of pass-through that is determined for each State.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- Federal funds can only be expended on services that are directly related to drug enforcement programs and that are specified in the supporting documentation in the grant award.
- Federal funds may not be used for lobbying the Executive or Legislative Branches in connection with a specific contract, grant, or loan. (Public Law 101–121, Section 319)
- Test for funds used for lobbying purposes.

Suggested Audit Procedures

- Review plan or grant award.
- Test expenditure and related records.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The grantee/subgrantee must finance 25 percent of the cost with its own funds.

Suggested Audit Procedures

- Review financial records and reports and ascertain total costs for planning, administration, and construction.
- Determine amount and manner in which matching share was met.

D. Special Reporting Requirements

Compliance Requirements

The following financial reports must be submitted periodically for this program:

- Financial Status Report (SF 269).
- Request for Payment on Letter of Credit and Status of Funds Report (SF 5805).
- Outlay Report and Request for Reimbursement—Contruction Programs (SF 271).

Suggested Audit Procedures

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

There are no special tests or provisions.

Section G. DEPARTMENT OF LABOR

EMPLOYMENT SERVICE

17.207

I. PROGRAM OBJECTIVES

The objectives of the Employment Service Program are to: (1) provide job placement and other employment services, such as testing and counseling, to unemployed individuals and other job seekers; (2) provide employers with a source of qualified applicants and selected technical assistance in resolving workforce problems; and (3) develop information on job opportunities and State and local labor market planning information. This program is authorized by the Wagner-Peyser Act, 29 U.S.C 49 *et seq.;* 38 U.S.C. Chapters 41 and 42.

II. PROGRAM PROCEDURES

Funds are provided to States for establishing and maintaining local public employment offices through which the States administer Federal and State employment service programs.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

Funds may be spent by a State for a variety of activities authorized in the Wagner-Peyser Act, as amended, and implementing regulations. (20 *Code of Federal Regulations* (CFR) 5, 652.5, 652.8(d)) Allowable services include the following:

- Assisting jobseekers in finding employment.
- Assisting employers in filling jobs.
- Facilitating the match between jobseekers and employers.
- Participating in a system for clearing labor between the States.
- Meeting the work test requirement of the State unemployment compensation system.
- Carrying out promotional and informational activities consistent with the provisions of the Wagner-Peyser Act. (20 CFR 652.3, 652.8)

Allowable costs are determined in accordance with OMB Circular A–87. (20 CFR 5, 652.8 8(d))

Suggested Audit Procedure

Review activities and test expenditures to ensure conformity with allowable activities.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

There are no special tests or provisions.

UNEMPLOYMENT INSURANCE

(Federal Unemployment Tax Act/Employer Tax Credits)

17.225

This compliance supplement covers requirements for receipt of the administrative grants provided to State Employment Security Agencies (SESAs) to operate the Unemployment Insurance Program, and for State employers' receipt of tax credits against the Federal unemployment tax.

(The compliance requirements for the Federal/State Extended Benefit Program and Federal benefit programs for former Federal civilian and military employees are covered in separate supplements.)

I. PROGRAM OBJECTIVES

The objectives of the Unemployment Insurance Program are to pay benefits to unemployed workers for periods of involuntary unemployment and to stabilize the economy by maintaining the spending power of workers while they are between jobs. This program is authorized under the Federal Unemployment Tax Act and Titles III, IX, and XII of the Social Security Act.

II. PROGRAM PROCEDURES

The Unemployment Insurance Program was established in 1935 as a joint Federal and State system. The Federal and State governments are jointly responsible for administering the unemployment insurance system.

In general, each State is free to establish its own unemployment insurance law and program covering all aspects of the Unemployment Insurance Program, including tax structure, qualifying requirements, benefit levels, and eligibility/disqualification provisions. The Federal Unemployment Tax Act (FUTA) levies a payroll tax on employers as defined in Section 3306(a) of FUTA. Employers in States with approved State unemployment insurance laws may take credit against this tax for taxes paid under State laws. Additional tax credits are available to employers in States that have experience rating as the basis for taxes paid under the State unemployment insurance law. These Federal requirements have influenced the terms and conditions for paying benefits.

Title III of the Social Security Act provides administrative grants to the States to administer the Unemployment Insurance Program. States apply for administrative grants by submitting a Program and Budget Plan Employment and Training Administration ((ETA) Handbook No. 336) to ETA for approval. To receive full administrative grants, States must comply with the provisions of Section 303 of the Social Security Act.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

Administrative grant funds can be used only for the purposes and in the amounts found necessary by the Secretary of Labor for proper and efficient administration of the Unemployment Insurance Program. (Social Security Act, Title III, 303(a)(8))

Suggested Audit Procedure

Compare expenditure of administrative grants with provisions of the Program and Budget Plan assurances.

B. Eligibility

Compliance Requirement

States must develop methods of administration to ensure full payment of unemployment compensation "when due." Benefits must be paid properly and promptly to those eligible under the applicable unemployment law. This same system must prohibit payments when not due. (Social Security Act, Title III 303(a)(1)) To be in compliance with this requirement, States must meet the Secretary of Labor's prompt payment standard. (20 CFR 5 640)

Suggested Audit Procedures

- Review the procedures for computing benefits, assessing eligibility, and making prompt payments.
- Review claimant files and documentation for claimant payment. Test to determine:
  - — Eligibility for benefits.
  - — Proper computation of benefit entitlement and proper charging of benefits according to State law.
  - — Prompt payment of benefits.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

All employer tax payments received in the State must be immediately deposited in the Unemployment Trust Fund. (Title III, Social Security Act 303(a)(4); FUTA 3304(a)(3)).

Suggested Audit Procedures

- Review procedures for collecting tax receipts and depositing them in the U.S. Treasury, and evaluate for adequacy and timeliness.
- Test tax receipts to determine whether they were immediately deposited to the State's account in the Unemployment Trust Fund.

Compliance Requirement

All funds withdrawn from the State Unemployment Trust Fund must be used solely in payment of unemployment compensation benefits and refunds of amounts erroneously overpaid and other refunds as provided in Section 3305(b) of FUTA. Funds may not be withdrawn to finance the costs of administration, except as provided in Section 903(c)(2), Social Security Act. (Title III 303(a)(5); FUTA 3304(a)(4), 3305(b))

Suggested Audit Procedures

Review receipts and disbursements of funds withdrawn, including interest earned on local accounts holding such funds, to ensure proper usage.

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UNEMPLOYMENT INSURANCE
(Federal/State Extended Benefit Program)

17.225

This compliance supplement covers requirements for the Federal/State Extended Benefit Program. (The compliance requirements for receipt of administrative grants, State employer tax credits against FUTA, and the Federal benefit programs for former Federal employees and former members of the Armed Forces are covered in separate supplements.)

I. PROGRAM OBJECTIVES

The objective of the Federal/State Extended Benefit Program is to pay extended benefits to eligible unemployed workers who have exhausted their entitlement to regular unemployment compensation during periods of high unemployment. This program is authorized under the Federal/State Extended Unemployment Compensation Act (EUCA) of 1970.

II. PROGRAM PROCEDURES

FUTA requires that State unemployment compensation laws conform to the Federal/State EUCA, as amended. (FUTA 3304(a)(11)) In general, extended benefits are payable under the terms and conditions of State law. In 1980, Public Law 96–499 amended the Federal/State EUCA specifically to limit eligibility for and entitlement to extended benefits.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility

Compliance Requirements

- A claimant must have exhausted regular State unemployment benefits to qualify for extended benefits. The extended benefits period is determined by the State in which the claim was originally established. (EUCA Title II 202(a)(2); 20 CFR 5 615.4)
- A claimant may receive extended benefits equal to the lesser of the following amounts:
  - — One-half of the total amount of regular benefits.
  - — Thirteen times his or her weekly benefit amount.

  There is a 39–week limitation on total regular and extended benefits. (EUCA Title II 202(b); 20 CFR 5 615.7)
- To be eligible for a week of extended benefits, a claimant must apply for and accept suitable work. Suitable work is defined as any work that does not exceed the individual's physical and mental abilities.

  An extended benefit claimant must make a "systematic and sustained effort" to seek work and must provide "tangible evidence" to the State that he or she has done so. (EUCA, Title II 202(a)(3); 20 CFR 5 615.4).

Suggested Audit Procedures

Review claimant files and documentation for claimant payment. Specifically, the review should cover eligibility for benefits, proper computation of benefit entitlement, and proper charging of benefits according to State and Federal laws.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- Federal funds are available to reimburse States for one-half the costs of extended benefits paid to eligible claimants. An exception is that extended benefits paid to former Federal employees and former members of the armed forces under the Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-Service members (UCX) programs are 100 percent reimbursable. Also, the State must pay extended benefits to former employees who are claimants of State and local governments, but these costs are not reimbursable from Federal funds.
- The first week of extended benefits is reimbursable only if the State requires the first week in an individual's benefit year be an unpaid waiting week. (EUCA, Title II 204; 20 CFR 5 615.14)

Suggested Audit Procedures

- Ascertain the total cost of extended benefits.
- Ascertain the amount of extended benefits sought from the Federal Government.
- Determine whether the State requires an unpaid waiting week.

D. Special Reporting Requirements

Compliance Requirements

States must submit the following reports:

- Contribution Operations Quarterly (ETA–581).
- Overpayment Detection/Recovery Activities Quarterly (ETA–227).

E. Special Tests and Provisions

There are no special tests or provisions.

UNEMPLOYMENT INSURANCE

Unemployment Compensation for Federal Employees
Unemployment Compensation for Ex-Service Members

17.225

This compliance supplement covers requirements for the following two Federal unemployment compensation programs: UCFE and UCX.

(Two additional compliance supplements outline requirements for the Federal/State Extended Benefits Program and for the receipt of administrative grants under Title III of the Social Security Act. This latter supplement includes requirements for employer tax credits against the Federal unemployment tax.)

I. PROGRAM OBJECTIVES

The objective of UCFE and UCX Programs is to provide unemployment insurance benefits for eligible Federal employees and ex-service members. Laws governing UCFE and UCX Programs are contained in V, Chapter 85 of the U.S.C.

II. PROGRAM PROCEDURES

The Department of Labor is responsible for the administering UCFE and UCX Programs through SESAs. UCFE and UCX payments are made through State agencies under agreements with the Secretary of Labor. (U.S.C. Title V, Chapter 85 8502)

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

B. Eligibility

Compliance Requirements

- *UCFE Eligibility:* An unemployed Federal civilian worker's eligibility is determined under the unemployment insurance law of the State in which his or her last official duty station is located, before filing his or her first claim. If eligible, he or she is entitled to unemployment benefits in the amounts and under the conditions provided by the State unemployment insurance law. (U.S.C. Title V, Chapter 85, 8502; 20 CFR 5 609.3b)
- *UCX Eligibility:* An ex-service member's eligibility is determined under the unemployment insurance law of the State in which he or she first files a claim, which establishes a benefit year after his or her most recent separation from active military service. (U.S.C. Title V, Chapter 85 8502)

Ex-service members may receive up to 13 weeks of UCX benefits if they had 365 days or more of continuous active service in the Armed Forces or the Commissioned Corps of the National Oceanic Atmospheric Administration. To be eligible, ex-service members must have: (1) been separated under honorable conditions; (2) completed the term of active service they agreed to serve; or (3) if separated early, been separated for reasons of hardship, disability, or the Government's convenience. Claimants must serve a 4-week waiting period before being eligible for benefits. If the State has a 1-week waiting period, benefits are postponed a total of 5 weeks (U.S.C. Title V, Chapter 85 8521)

Suggested Audit Procedure

Review claimant files and documentation for claimant payment. Specifically, review should cover eligibility for benefits, proper computation

of benefit entitlement, and proper charging of benefits according to State and/or Federal law.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

On a quarterly basis, the State agencies must submit the ETA–191 supplement report to the Department of Labor. This report indicates the amount of UCFE and UCX benefits chargeable to each Federal agency and military branch. (U.S.C. Title V 8509(f); 20 CFR 5 609.17, 614.18) In addition, the ES–191 must be submitted monthly. Beginning in fiscal year 1988, ETA–191 supplement and ES–191 must be combined and submitted quarterly.

Suggested Audit Procedure

Test for completeness and accuracy of financial reports submitted to the Department of Labor.

E. Special Tests and Provisions

There are no special tests or provisions.

SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM

17.235

I. PROGRAM OBJECTIVES

The objective of the Senior Community Service Employment Program (SCSEP) is to provide, foster, and promote useful part-time work opportunities in community service activities for low-income persons who are 55 years old or older.

II. PROGRAM PROCEDURES

Funds are provided to States, local governments, and public and private nonprofit organizations, on submission and approval of an application, to create and pay for part-time community service job positions at established local service agencies or newly formed or innovative community service projects. Project funds may also be used for training, counseling, and other supportive services.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement *(Service Delivery Level)*

SCSEP participants shall be provided the opportunity of working an average of at least 20 hours per week and may not be Federally compensated for working more than 1,300 hours in a 12-month period. (29 CFR 89.25, 89.32)

Suggested Audit Procedures

- Review procedures for limiting SCSEP participants to maximum and minimum hours, and evaluate for adequacy.
- Obtain employment records for selected SCSEP employees and review for adherence to prescribed procedures.

Compliance Requirement *(Service Delivery Level)*

No more than 15 percent of the Federal funds can be expended for administration. (29 CFR 89.42)

Suggested Audit Procedures

- Ascertain total amount of Federal funds.
- Review financial records and ascertain amount expended on administration.

B. Eligibility

Compliance Requirement *(Service Delivery Level)*

All participants must be 55 years old or older and from a family either receiving regular cash welfare payments or with an annual income no greater than 125 percent of the Office of Management and Budget (OMB)-defined poverty level. Re-entered participants' income may exceed the poverty level by no more than $500 annually. (29 CFR 89.19)

Suggested Audit Procedures

- Review the procedures for determining eligibility and evaluate for adequacy.
- Review selected files and determine adherence to prescribed eligibility procedures.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

Generally, the project sponsor must pay for at least 10 percent of the total cost of the project with cash or in-kind contributions. (29 CFR 89.41, 29 CFR 89.76).

Suggested Audit Procedures

- Ascertain the total cost of the project.

- Review the financial records and determine the amount and source of the matching contribution.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement *(Service Delivery Level)*

SCSEP participants must not displace current employees or impair existing contracts for service. (29 CFR 89.40)

Suggested Audit Procedures

- Review instructions provided to employers of SCSEP employees and evaluate for adequacy.
- Test payroll and personnel records to ascertain whether SCSEP participants are used to supplant work that would otherwise be performed by current employees on existing contracts.

Compliance Requirement *(Service Delivery Level)*

SCSEP wages must be the higher of either the Federal or State minimum wage or the prevailing rate of pay for persons employed in similar public employment. (29 CFR 89.32)

Suggested Audit Procedures

- Identify positions filled by SCSEP employees.
- Ascertain Federal and State minimum wage and prevailing pay scale for filled positions.
- Test payroll records and ascertain wages paid to SCSEP participants.

JOB TRAINING PARTNERSHIP ACT
(JTPA Titles I, II, and III)
17.246 through 17.250

I. PROGRAM OBJECTIVES

The objective of the Job Training Partnership Act (JTPA) is to provide funds to States to establish programs to prepare youth and unskilled adults for entry into the labor force. These programs should provide job training to those economically disadvantaged individuals and other individuals who face serious barriers to employment and who are in special need of such training to obtain productive employment.

II. PROGRAM PROCEDURES

Title I of the JTPA establishes the job training partnership system, Title II provides for training services for adult and youth disadvantaged persons, and Title III authorizes employment and training assistance for dislocated workers.

Except for funds made available under Section 302(a)(2) of the JTPA (Secretary's reserve for Dislocated Workers), JTPA Title II and III funds are awarded to States in accordance with statutory allotment formulas. The States suballocate Title II–B funds, and 78 percent of the funds provided under Title II–A are suballocated among service delivery areas established by the Governors under Section 101 of JTPA. The remainder of Title II and III funds are used by the States to finance activities authorized under Section 202 (b) and Sections 323 and 324 of JTPA.

To receive financial assistance under JTPA, a State must biennially submit to the Secretary of Labor a Governor's coordination and special services plan covering 2 program years. In addition, States must separately apply for Title III Secretary of Labor reserve funding in accordance with Section 311 of JTPA. SDAs must submit 2-year job training plans to the Governor in accordance with Section 104 of JTPA to receive JTPA funding.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- Titles I and II funds can be expended for training, administration, and participant support in accordance with guidelines on allowable costs issued by the Governor. To be allowable, a cost must be necessary, reasonable, and applicable to the program. (20 CFR 629.37–39)
- No funds made available under Titles I, II–A, or III may be used for public service employment. (20 CFR 629.2)

Suggested Audit Procedures

- Review the Governor's guidelines for allowable costs.
- Test expenditure and related records to determine if costs are allowable and charged to the appropriate JTPA cost categories.

Compliance Requirements

- Subject to the exclusions contained in 20 CFR 629.39(b), (d)–(g):
  - Not less than 70 percent of the Titles I and II–A funds may be expended for training costs. Training costs include costs associated with on-the-job training services; employer outreach necessary to obtain job listings or job training opportunities; salaries, fringe benefits, and equipment and supplies of personnel directly engaged in providing training (including remedial education); job search

assistance, including preparation for work and labor market orientation; books and other teaching aids; equipment and materials used in providing training to participants; classroom space and utility costs; tuition and entrance fees that represent instructional costs that have a direct and immediate impact on participants; 50 percent of the costs of a limited work experience program; and 250 hours of youth tryout employment training costs. (20 CFR 629.38 (e)(1))

— Administrative costs are limited to 15 percent of the available funds. (20 CFR 629.39(a)(2))

— Administrative and participant support costs combined are limited to 30 percent of the available funds, unless waived by the Governor.

- The Employment and Training Administration issued an interpretation on JTPA cost limitations in the *Federal Register* dated September 18, 1984, and March 26, 1985.
- Cost limitations for Title III are included at 20 CFR 631.14.

Suggested Audit Procedures

- Determine if sufficient records are maintained to ensure compliance with cost limitations.
- Ascertain available funds.
- Compare actual expenditures to minimum and maximum allowable costs, and review any waivers by the Governor.

Compliance Requirement

Income generated under any JTPA program shall be used to further program objectives and may be retained by that program unless the Governor requires that such income be turned over to the State. (20 CFR 629.32)

Suggested Audit Procedures

- Determine whether the recipient has notified subrecipients that program income must be used to further program objectives or turned over to the State.
- Ascertain whether the recipient has controls in place to ensure that program income retained by the program has been used to further program objectives.

B. Eligibility

Compliance Requirements

- Each administrative entity is responsible for the eligibility of those enrolled in its programs. Administrative entities may delegate the responsibility for eligibility determination if the delegation and related safeguards are included in an approved job training plan. (Public Law 97–300, 141(i))
- Each job training plan shall provide employment and training opportunities to individuals who are most likely to benefit from and are most in need of such services. (Public Law 97–300, 141(a))
- Except as provided in Sections 123(c)(3) and 203(a) (2) of JTPA, Title II participants must be economically disadvantaged. Eligibility requirements for activities authorized under Title II are found at Sections 123, 124, 203, 205(c)(1), and 254 of JTPA. Eligibility for dislocated workers under Title III is defined in Section 301 (a) of JTPA. (20 CFR 629.1)

Suggested Audit Procedures

- Review the eligibility determination system and evaluate for adequacy.
- Review selected participant files and determine the appropriateness of eligibility determinations.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- Cooperative agreements between State education agencies, administrative entities in service delivery areas, and local education agencies shall provide for a contribution by the State agencies and local education agencies of an amount equal to the Federal funds provided. (Public Law 97–300, 123(a)(1), 123(b); 20 CFR 629.40)
- Program income may be used to satisfy the matching requirements of Section 123(b) of JTPA. (20 CFR 629.32)

Suggested Audit Procedures

- Ascertain the total amount allocated pursuant to Section 123(b) of JTPA for cooperative agreements.
- Review the financial records and ascertain the amount and source of the contributions.

D. Special Reporting Requirements

Compliance Requirement

The Secretary of Labor shall issue instructions on reporting requirements. Reports shall be submitted within 45 calendar days after the end of the reporting period. (20 CFR 629.36.)

Suggested Audit Procedure

Obtain copies of reports and trace data in selected reports to supporting documentation.

E. Special Tests and Provisions

Compliance Requirement

The Governor shall submit a separate audit resolution report, documenting the disposition of reported questioned costs, within a timely period after submission of the audit report. (20 CFR 629.42(d))

Suggested Audit Procedures

- Review the accuracy of the Governor's audit resolution report.
- Select a sample of actions taken on subrecipient audits and trace disposition, including the disposition of any debts that were established.

Compliance Requirements

- Costs that are billed as a single unit charge do not have to be allocated or prorated among the several cost categories (training, Title III retraining services, administration, and participant support), but may be charged entirely to training or retraining services when the agreement:
  - Is for training,
  - Is fixed unit price.
  - (1) Stipulates that full payment of the full unit price will be made only on completion of training by a participant and placement of the participant in unsubsidized employment in the occupation trained for and at not less than the wage specified in the agreement; or (2) in the case of youth, payment for training packages purchased competitively pursuant to section 141(d)(3) of JTPA shall include payment for the full unit price if the training results in either placement in unsubsidized employment or the attainment of an outcome specified in section 106(b)(2) of JTPA.

(20 CFR 629.38(e)(2))

- ETA issued an official interpretation in the March 13, 1989, *Federal Register* on fixed unit price contracts written under 20 CFR 629.38(e)(2). ETA's official interpretation, which is effective July 1, 1989, provides in part that:
  - Training must consist of a core of either occupational training or basic skills, remediation training, or both.
  - All training must be tied to a specific or general occupational target.
  - Training packages must be designed for all participants to receive the core training.
  - Contracts are to be written in accordance with sound procurement practices and applicable codes.
  - Contracts for job search assistance only are not chargeable under 20 CFR 629.38(e)(2).
  - The costs of contracts not meeting all applicable requirements must be allocated among the normal cost categories of training, participant support, and administration.
  - Public or private nonprofit contractor revenues in excess of costs ("profits") are to be treated as program income pursuant to 20 CFR 629.32 and used to further program objectives.
  - Sufficient records must be maintained to allow costs to be properly charged should the contractor fail to meet the provisions of 20 CFR 629.38(e)(2) or applicable State procurement policy.

Suggested Audit Procedures

- Review controls designed to ensure that the contract amounts charged entirely to training comply with applicable requirements.
- Select a sample of fixed unit price contracts charged entirely to training for compliance with 20 CFR 629.38(e)(2) and ETA's March 13, 1989, interpretation.
- Determine whether:
  - Individuals who were trained under the contracts were eligible to receive services.
  - Payments to vendors were properly supported and justified.

— Contract amounts were properly chargeable to training.

- If contracts do not meet applicable requirements, question the entire contract amount.
- If the net impact of the reallocation appears material, redetermine compliance with the cost limitations.
- If records are not available to permit reallocation of costs for contracts not meeting applicable requirements, question the entire amount paid under the contract.

OCCUPATIONAL SAFETY AND HEALTH

17.500

I. PROGRAM OBJECTIVES

The purpose of the Occupational Safety and Health Act (OSHA) of 1970 is to ensure safe and healthful working conditions for working men and women. OSHA authorizes enforcement of the standards developed under OSHA; assists and encourages the States in their efforts to ensure safe and healthful working conditions; and provides for research, information, training, and education in the field of occupational safety and health.

II. PROGRAM PROCEDURES

Funds are provided to States to assist them in (1) operating approved State enforcement plans under section 18 of OSHA and (2) collecting occupational injury and illness information and statistics. Funds are also provided to States (under section 7(c)(1)) to assist OSHA in carrying out any of the responsibilities under OSHA (e.g., to develop and operate safety and health consultation programs for small businesses).

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

Types of services allowed depends on the section of OSHA under which the grant is awarded:

- Section 7(c)(1) is designed to obtain the States' assistance in supplementing OSHA's programs, usually to provide consultation services to small businesses.
- Section 23(g) is designed to assist States in administering and enforcing their State plans.
- Section 24(b)(2) is designed to assist States in gathering statistics on injuries and illnesses in the workplace.

Suggested Audit Procedures

- Identify the type of grant funds, that is, the pertinent section of OSHA.
- Test expenditure and related records.

B. Eligibility

Compliance Requirements

The following eligibility requirements are relevant:

- Section 7(c)(1): Any State may receive funds under a cooperative agreement to perform consultations for private sector employers; however, a State is ineligible if it has a State plan that includes provisions for Federally funded consultations to private emoployers.
- Section 23(g): Grants may be awarded only to a State agency, designated by the Governor, which has an approved State plan.
- Section. 24(b)(2): All States are eligible.

Suggested Audit Procedures

- Ascertain appropriate eligibility criteria:
  - For Section 7(c)(1), see 29 CFR 1908.
  - For Section 23(g), see 29 CFR 1951.
  - For Section 24(b)(2), see Bureau of Labor Statistics' (BLS) Guidelines for the BLS-Occupational Safety and Health Statistical Grant Program.
- Review selected cases to determine whether eligibility criteria were met.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- The maximum Federal share of each grant's total cost are as follows:

Section	*Percent Federal Funds*
7(c)(1)	90
23(g)	50
24(b)(2)	50

- In addition, grantee funds derived from other Federal funds may not be used to match the Federal funds provided under OSHA.

Suggested Audit Procedures

- Ascertain appropriate Federal matching percent.
- Ascertain the total cost of the project.
- Review financial records and determine the amount and source of the matching funds.
- Determine whether Federal matching shares adhered to percent limits.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

There are no special tests or provisions.

Section H. DEPARTMENT OF TRANSPORTATION

AIRPORT IMPROVEMENT PROGRAM

20.106

I. PROGRAM OBJECTIVES

The objective of the Airport Improvement Program is to assist sponsors, owners, or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics.

II. PROGRAM PROCEDURES

States, counties, municipalities, U.S. Territories and possessions, and other public agencies, including Indian tribes or Pueblo are eligible for airport development grants if the airport on which the development is required is listed in the National Plan of Integrated Airport Systems (NPIAB). Applications for grants must be submitted to nearest FAA Airports Field Office. Primary airport sponsors must notify FAA by January 31 or another date specified in the *Federal Register* of their intent to apply for funds which they are entitled under Public Law 97–248. A reminder is published annually in the *Federal Register*. Other sponsors are encouraged to submit early in the fiscal year and to contact the appropriate FAA Airports Field Officer for any local deadlines. Sponsors must formally accept grant offers no later than September 30 for grant funds appropriated in that fiscal year.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Program guidance is provided in Federal Aviation Administration (FAA) Order 5100.38, *Airport Improvement Program Handbook*, and FAA Advisory Circulars in the 150/5100 series. Grants can be made for planning, constructing, improving, or repairing a public-use airport or portion thereof consisting of (1) development of airport master plans, (2) development of airport systems plans, (3) development and carrying airport noise compatibility programs, (4) land acquisition, (5) site preparation, (6) construction, alteration, and repair of runways, taxiways, aprons, and certain roads within airport boundaries, (7) construction and installation of lighting, utilities, navigational aids, and certain offsite work; (8) safety equipment required for certification of a facility, (9) security equipment required of the sponsor by the Secretary of Transportation by rule or regulation for the safety and security of persons and property on the airport, (10) snow removal equipment, (11) nonrevenue-producing public-use terminal development, (12) aviation-related weather reporting equipment, or (13) equipment to measure runway surface friction.

In general, Federal funds cannot be expended for:

- Passenger automobile parking facilities, buildings to be used as hangars, and portions of terminals that are revenue-producing or not directly related to the safe movement of passengers and baggage at the airports; and
- Costs incurred before execution of the grant, unless such costs are for land, necessary

costs in formulating a project, or costs covered by a letter of intent.

The following are examples of items for which FAA funds cannot be expended:

- Fuel farms.
- Emergency planning.
- Decorative landscaping, sculpture, or artworks.
- Communication systems, except those used for safety/security.
- Training facilities, except those included in an otherwise eligible project as an integral part of that project and that are of a relatively minor or incidental cost, that is, less than 10 percent of the project cost. An example of an exception would be a training room included as part of a new Aircraft Resuce and Firefighting (ARFF) facility.
- Roads of whatever length, exclusively for the purpose of connecting public parking facilities to an access road.
- Roads serving solely industrial or nonaviation-related areas or facilities.
- General aviation terminals.
- Airport surface detection systems (ASDE).
- Maintenance/service facilities except for those allowed to service required ARFF equipment.
- Office/administrative equipment, including data processing equipment, computers, recorders, and so forth.
- Projects for the determination of latitude, longitude, and elevation except as an incidental part of master planning.

Suggested Audit Procedures

- Determine whether various "Assurances" required by the grant agreement have been complied with. The assurances are made by the grantee as a condition of approval of the grant application.
- Determine if the classification of costs claimed were authorized by the grant agreement, adequately supported by source documentation within budgetary limitations, and incurred after the grant execution date, unless otherwise authorized. Costs eligible for reimbursement incurred before the grant execution date would include costs for land, include costs of formulating the project, or otherwise be included in a letter of intent.
- Review the program expenses claimed and supporting documentation in detail to determine whether ineligible costs had been included in the amount claimed by the grantee.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

FAA's share of allowable costs for a particular grant is established in the grant agreement.

Suggested Audit Procedures

- Review the grant agreements and determine the grantee's matching requirement.
- Review the financial records and ensure that grantee's claimed costs that are reimbursed do not exceed the authorized percentage share of the grants.

D. Special Reporting Requirements

Compliance Requirement

The Construction Progress and Inspection Reports (FAA Form 5370–1) must be submitted periodically to monitor project progress under construction grants and subgrants. (49 CFR 18.40(c) and 18.41)

Suggested Audit Procedure

Review the report preparation process, especially construction progress and inspection reports, to ensure that information submitted is accurate and complete.

E. Special Tests and Provisions

Compliance Requirement

The Airport and Airway Improvement Act of 1982, as amended, section 511(a)(12), requires that all revenue generated by the airport, if it is publicly-owned, to be expended for the capital or operating costs of the airport or other local facilities that are owned or operated by the sponsor and directly and substantially related to the actual air transportation of passengers or property.

Suggested Audit Procedure

Review the policy for using airport revenue and the recording of selected revenue use transactions to ensure that no airport revenue has been improperly used. Identify in the audit report any improperly used revenue.

Compliance Requirement

Eligible terminal building development is limited to nonrevenue-producing public-use areas that are directly related to the movement of passengers and baggage in air carrier and commuter service terminal facilities within the boundaries of the airport. Eligible construction is limited to items of work and for the quantities listed in the grant description and/or special conditions. (FAA Order 5100.38A, par. 551)

Suggested Audit Procedures

- Review the special conditions in the grant agreement and identify any development included in the plans and specifications to be excluded from Federal participation and whether any related engineering and administrative costs should be prorated for ineligible development.
- Review selected Federal-aid claims and determine whether any nonparticipating costs have been included. If so, these costs should be identified as disallowed costs.
- Determine whether engineering and administrative costs were properly prorated for associated nonparticipating construction costs.

HIGHWAY PLANNING AND CONSTRUCTION

20.205

I. PROGRAM OBJECTIVES

The objectives of the Highway Research, Planning, and Construction Program are to: (1) assist States in constructing and rehabilitating the interstate highway system and building or improving primary, secondary, and urban-system roads and streets; (2) provide aid for repairing the system, roads, and streets following disasters; (3) foster safe highway design; and (4) replace or rehabilitate unsafe bridges.

II. PROGRAM PROCEDURES

Funds are provided to State highway agencies (SHA) to pay for a defined portion of the planning, research, and construction costs of approved projects. Funds can also be made available through SHAs to local public agencies (LPA), such as cities, counties, tribal governments, metropolitan planning organizations (MPO), and other political subdivisions. In some cases, projects may be administered by the SHA under certification acceptance (CA) procedures or secondary road plan procedures approved by the Federal Highway Administration (FHWA).

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Federal funds can be used to reimburse only for costs that are: (1) incurred subsequent to the date of authorization to proceed; (2) in accordance with the conditions contained in the project agreement and the plans, specifications, and estimates (PS&E); (3) based on a recorded liability or cash disbursement; (4) allocatable to a specific project; and (5) claimed for reimbursement subsequent to the date of the project agreement. (23 *Code of Federal Regulations* (CFR) 1.9; 23 CFR 140.105; 23 CFR 630.114, .205, .303, .304)

Suggested Audit Procedures

- Review selected project agreements.
- Ascertain date of authorization to proceed.
- Review selected claimed costs and determine whether the cost (1) was incurred after authorization to proceed and claimed after the date of the project agreement; (2) is allowable in accordance with the terms of the project agreement and PS&E; and (3) was either paid or accrued.

Compliance Requirement

Costs for the establishment, maintenance, general administration, supervision, and other overhead of SHAs are unallowable, except that costs incurred for salaries and wages of the administrative organization of the highway planning, research, and development units may be eligible in the ratio of the time spent on federally funded work to the unit's working hours as a whole. (23 CFR 1.11, 140.713(b))

Suggested Audit Procedure

Examine Federal-aid claims and reports to determine if unallowable administrative or overhead expenses have been excluded.

Compliance Requirements

- Federal funds can be used to reimburse for administrative settlement costs incurred in defending contract claim proceedings before arbitration boards or State courts only if approved by FHWA.
- If special counsel is used, it must be recommended by the State Attorney or SHA legal counsel and approved in advance by FHWA. (23 CFR 140.505)

Suggested Audit Procedures

- Review selected Federal claim reports and identify costs claimed for administrative settlements and special counsel.
- Determine whether FHWA approval was obtained.

Compliance Requirement

Federal funds can be used to reimburse for an audit by a public accounting firm of third party contracts only if the audit contract has been approved by FHWA. (23 CFR 140.807)

Suggested Audit Procedures

- Determine from selected Federal claim reports whether costs were claimed for independent audit services.
- Review the FHWA approval of the audit contract if audit costs were claimed.

Compliance Requirement

Costs incurred by the SHA or MPO for highway planning and research work are subject to a work program approved by FHWA. (23 CFR 420.109)

Suggested Audit Procedures

- Review selected payments to MPOs and ascertain whether they agree with the work program.
- Review the invoices or other records and determine whether the payments are in accordance with the agreement and the work program.

Compliance Requirement

Advances obtained from the FHWA Right-of-Way Revolving Fund must be repaid (1) on termination of the time period within which actual construction must commence (not less than 2 years nor more than 10 years following the end of the fiscal year in which the advance was made, unless otherwise approved by FHWA); (2) on approval of the construction plans, specifications, and estimates; or (3) when the project is withdrawn or converted to a regular Federal-aid project, whichever occurs first. (23 CFR 130.407, 712.701)

Suggested Audit Procedures

- Identify advances outstanding from the Right-of-Way Revolving Fund.
- Determine whether any of the events requiring repayment of the advances have occurred.
- Test financial records and determine whether the repayments were made on a timely basis.

Compliance Requirement

Other State or local government agencies may be used for acquiring rights-of-way and reimbursed based on a written agreement. (23 CFR 710.203)

Suggested Audit Procedures

- Examine inventory and other records and determine if other agencies have been used for acquiring rights-of-way on Federal-aid projects.
- Review written right-of-way acquisition agreements with other agencies.
- Review selected payments to other agencies and determine whether they comply with the written agreement.

Compliance Requirement

When funds are reimbursed for the acquisition of rights-of-way in coordination or cooperation with other Federal programs, the acquisition and cost-sharing responsibilities of SHA and the other agencies shall be set forth in an agreement. (23 CFR 710.304)

Suggested Audit Procedures

- Review the agreement if right-of-way was acquired in coordination or cooperation with other Federal programs.
- Test the transaction records and compare with the agreement.
- Obtain the representation letter containing a statement that no rights-of-way were acquired in coordination or cooperation with other Federal programs except as listed in the representation letter.

Compliance Requirement

Federal funds can be used to reimburse the reasonable costs for the functional replacement of publicly owned real property provided that FHWA concurs that it is in the public interest. The cost of increases in capacity and other betterments are not eligible except if (1) necessary to replace utility; (2) required by existing codes, laws, and zoning regulations; or (3)

related to reasonable prevailing standards for the type of facility being replaced. (23 CFR 712.604, 712.605)

Suggested Audit Procedures

- Determine if there were any functional replacements of publicly owned real property.
- Determine if FHWA concurred in paying the reasonable costs of the functional replacements.
- Review the procedures for incurring and controlling replacement costs and evaluate for adequacy.
- Review selected transactions involving replacement costs and determine whether there is adherence to the prescribed procedures.

Compliance Requirement

Federal funds cannot be used to reimburse for the costs of real property not incorporated into the final right-of-way, unless considered uneconomic remnants or approved by FHWA. (23 CFR 710.304)

Suggested Audit Procedures

- Review selected Federal-aid claims to identify claims for the cost of real property.
- Compare selected parcels claimed for Federal participation with the record of ownership (deed, easement, etc.) and with the FHWA-approved right-of-way map or FHWA approval for other usage.
- Determine that the selected parcels were incorporated into the final right-of-way

Compliance Requirement

Payments for personal property, loss of business or goodwill, circuity of travel, diversion of traffic, and other items of damage generally are not compensable in eminent domain and are not eligible for Federal participation. (23 CFR 710.304)

Suggested Audit Procedures

- Review the system for recording payments for negotiated and condemned right-of-way and determine how noncompensable items are financed.
- Review judgments, trial reports, appraisals, and negotiation reports and determine whether they include noncompensable items.
- Review selected Federal-aid claims and determine whether they include noncompensable items.

Compliance Requirement

Although State-owned lands may be exchanged for lands required for highway purposes, Federal funds may not reimburse for more than the fair market value of the land required for highway purposes plus damages. (23 CFR 710.304)

Suggested Audit Procedures

- Ascertain if the recipient has acquired any rights-of-way required for highway purposes through an exchange with State-owned lands.
- Review financial and related records and determine whether the cost claimed was the lesser of either:
  - The fair market value of the land required for highway purposes plus damages, or
  - The sum of:
    (1) The fair market value of the State-owned land,
    (2) Any additional cash payments made, and
    (3) The cost of construction features to mitigate damages.
- Obtain a representation letter containing a statement that no property required for Federal-aid highway purposes has been exchanged for State-owned lands except as listed in the representation letter.

Compliance Requirement

Federally funded payments to utility companies must be in accordance with an FHWA-approved agreement between the company and the SHA or LPA. The payments may include costs for preliminary engineering, right-of-way, and construction that are directly allocatable to the utility relocation. The payments may not include the costs of advertising, sales promotion, interest or charges for funds used, uncollectible accounts receivable, contributions, donations, entertainment, fines, penalties, lobbying, or research programs. (23 CFR 645.117)

Suggested Audit Procedures

- Review selected payments to utility companies and ascertain whether there is an FHWA- approved agreement.
- Ascertain whether there is a grantee audit of the utility company that would determine compliance with the agreement.

Compliance Requirement

Payments to a railroad company must be made in accordance with an FHWA-approved agreement between the company and the SHA or LPA. (23 CFR 646.216)

Suggested Audit Procedures

- Review selected payments to railroad companies and ascertain whether there is an FHWA- approved agreement.
- Ascertain whether there is a grantee audit of the railroad company that would determine compliance with the agreement.

Compliance Requirement

Reimbursement for construction engineering cannot exceed 15 percent of construction costs, exclusive of costs of preliminary engineering, construction engineering, and rights-of-way. (23 CFR 140.203, 140.205)

Suggested Audit Procedure

Examine selected Federal-aid claims and determine whether claims for construction engineering costs are within limits.

Compliance Requirements

- For bond-issue projects approved under 23 U.S.C. 122, payment of bond principal at maturity is eligible if the bond proceeds were expended in the construction of Federal-aid projects. Payment of bond interest is eligible if (1) the bonds were issued after November 6, 1978; (2) the proceeds were expended on interstate projects; and (3) the SHA was eligible to obligate interstate discretionary funds during the fiscal year of approval. The projects must be free of tolls. (Public Law 95–599)
- Payments into bond-retirement sinking funds are not eligible for reimbursement. (23 CFR 140.602)

Suggested Audit Procedures

- Review selected Federal-aid claims and ascertain if bond principal or interest payments have been claimed.
- Determine the disposition of the bond proceeds.
- Review the documentation supporting Federal-aid eligibility.
- Determine whether tolls are charged.

Compliance Requirements

- Construction projects administered under standard procedures cannot be advertised nor force account work commenced until FHWA (1) approves the plans, specifications, and estimates, and (2) authorizes the SHA to advertise for bids or approves the force account work. Construction cannot begin until after FHWA concurs in the contract award. (23 CFR 630.205; 23 CFR 635.111, 635.204, 635.309)
- Construction projects administered under CA procedures require only FHWA authorization to proceed. (23 CFR 640.113)

Suggested Audit Procedures

- Review selected projects and identify dates of the necessary approvals, authorizations, and concurrences.
- Identify dates that projects were advertised and contract or force account work was initiated.

Compliance Requirement

The cost of stockpile materials is allowable if the costs of materials do not exceed that needed to complete the project and the value of the materials do not exceed the value of contract items in which they are incorporated. (23 CFR 635.114)

Suggested Audit Procedures

- Identify claims for stockpile materials in selected progress vouchers.
- Ascertain size of inventory of stockpile materials and compare with project needs.
- Determine intended end-use of stockpile materials.
- Review purchase, inventory, and other records to determine value of materials, and

compare them with the value of contract items in which they are incorporated.

Compliance Requirement

FHWA must authorize changes that increase the Federal cost or alter the physical limits, character, or scope of the work. Major changes must be approved in advance. Minor changes may be approved retroactively. (23 CFR 635.121)

Suggested Audit Procedures

- Review selected contract changes, and determine whether cost increased or whether the physical limits, character, or scope of the work changed.
- Examine FHWA approvals.

Compliance Requirement

Expenditures for highway maintenance are not eligible. (23 CFR 1.27; 23 U.S.C. 116)

Suggested Audit Procedures

- Review the system for recording highway maintenance costs and determine whether any such costs could be inadvertently claimed for Federal participation.
- Review selected Federal-aid claims and determine whether any highway maintenance costs have been included.

Compliance Requirement

Federal funds may be used to reimburse for tuition and direct educational costs of continuing highway-related education of SHA and LPA employees, but not for travel, subsistence, or salaries of students. (23 CFR 260.407)

Suggested Audit Procedures

- Determine if the recipient has claimed education costs.
- Review selected Federal-aid claims and determine whether the claims do not include travel, subsistence, and salary costs.
- Obtain the representation letter containing a statement that no claim has been made for education costs except as identified in the representation letter.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The State is generally required to pay a portion of the project costs. Portions vary according to the type of funds authorized and the project agreements. A State's matching share for a project may be credited by the fair market value of donated land incorporated in the project. (23 U.S.C. 120, 323)

Suggested Audit Procedures

- Review the project agreement.
- Review selected projects and determine whether the correct participating percentages have been claimed.

D. Special Reporting Requirements

Compliance Requirement

The following financial reports must be submitted periodically:

- Voucher for work under provisions of the Federal-Aid and Federal Highway Acts, as amended (Form PR–20).
- Voucher for payment under certification acceptance (Form FHWA–1447).

Suggested Audit Procedure

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

Compliance Requirement

Payment vouchers must be certified and accompanied by supporting data. The supporting data may be generated through an automated billing system. The final voucher must be submitted promptly following project completion. (23 CFR 1.31, 140.107)

Suggested Audit Procedures

- Review the recipient's system for Federal-aid billing and evaluate whether it adequately meets FHWA requirements for excluding unallowable costs.
- Review selected Federal-aid claims and determine whether there is supporting documentation.

- Determine if final vouchers are submitted promptly.

Compliance Requirements

- Policies and procedures for the management of real property acquired for right-of-way purposes are to be established, including records of acquired parcels and improvements, property management expenses, rent receipts, and disposals. (23 CFR 713.103)
- The Federal share of net income from airspace rights-of-way obtained by the States for sales, uses, or leases shall be used by the State for highway projects. (23 USC 156)

Suggested Audit Procedures

- Review manuals and other documentation for the acquisition, maintenance, rental, and disposal of land and improvements and evaluate for adequacy.
- Trace selected right-of-way acquisitions and dispositions to inventory records.
- Trace the receipts for selected rentals and disposals to cash records and determine whether the proper credits were given to federally aided projects.

Compliance Requirement

Right-of-way property may be transferred to another governmental agency for public use without a credit to Federal funds. If there is a payment to the SHA for the transfer, a credit shall be made to Federal funds in the same ratio as Federal funds were used for acquiring the right-of-way. (23 CFR 713.307)

Suggested Audit Procedures

- Ascertain if there have been property transfers to other governmental agencies.
- Test FHWA's approval of the transfers.
- Ascertain if payments received were credited to Federal funds in the appropriate ratios.

Compliance Requirement

FHWA must approve extensions affecting project costs or the amount of liquidated damages, except those for projects administered under CA procedures. (23 CFR 635.122)

Suggested Audit Procedures

- Review the systems for monitoring and controlling contract time.
- Determine whether FHWA approval was obtained for time extensions affecting project cost and whether, where applicable, liquidated damages were assessed.

Compliance Requirement

An SHA or LPA must have a sampling and testing program to ensure that materials and workmanship generally conform to approved plans and specifications. (23 CFR 637.205)

Suggested Audit Procedures

- Obtain an understanding of the recipient's sampling and testing program.
- Review selected uses of materials and determine whether the required samples and tests were made.
- Determine the disposition of failed materials.

Compliance Requirement

When a State recovers funds from highway contractors for project overcharges due to bid-rigging, fraud, or anti-trust violations or otherwise recovers compensatory damages, the Federal-aid project involved shall be credited with the Federal share of such recoveries. (Tennessee v. Dole 749 F.2d 331 (6th Cir. 1984); 57 Comp. Gen. 577 (1978); 47 Comp. Gen. 309 (1967))

Suggested Audit Procedures

- Determine the extent that the State has recovered overcharges and other compensatory damages on federally aided projects through appropriate interviews and a review of legal, claim, and cash receipt records.
- Determine whether applicable recoveries were credited to federally aided projects on a timely basis by tracing cash receipts to Federal-aid billings.

MOTOR CARRIER SAFETY ASSISTANCE PROGRAM

20.218

I. PROGRAM OBJECTIVES

The objective of the Motor Carrier Safety Assistance Program (MCSAP) is to reduce the number and severity of accidents and hazardous material incidents involving commercial motor vehicles by substantially increasing the level of enforcement activity and likelihood that safety defects, driver deficiencies, and unsafe carrier practices will be detected and corrected. (49 CFR 350.7)

II. PROGRAM PROCEDURES

Funds are provided to States to assist them in the development and implementation of programs for the enforcement of Federal rules and regulations, applicable to commercial motor vehicle safety.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Federal funds can be used to reimburse States for costs incurred for work performed pursuant to a State plan approved by FHWA. (49 CFR 350.29)

Suggested Audit Procedures

- Review selected project agreements.
- Ascertain date of authorization to proceed.
- Review selected claimed costs and determine whether the costs were incurred after authorization to proceed and are allowable in accordance with the terms of the project agreement.

Compliance Requirement

The cost of acquisition of real property and buildings are not eligible as a participating cost in the MCSAP. (49 CFR 350.29)

Suggested Audit Procedures

Examine Federal-aid claims and reports to determine whether the costs of real property and buildings have been excluded.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The Federal share payable to reimburse States for eligible costs incurred in the development or implementation of a commercial motor carrier safety program shall not exceed 80 percent. FHWA will, upon request, waive the requirement for matching funds to be provided by the Virgin Islands, American Samoa, Guam, or the Commonwealth of the Northern Marianas.

Suggested Audit Procedure

Review selected projects to determine whether the correct participating percentages have been claimed.

Compliance Requirement

If the State had a motor carrier safety program prior to January 6, 1983, it shall continue to fund that program at a level that does not fall below the average of such expenditure during the State's last 2 full fiscal years preceding January 6, 1983. (49 CFR 350.17)

Suggested Audit Procedures

- Determine if the State had a motor carrier safety program prior to January 6, 1983. If it did, determine whether the program was

funded during the audit period at a level equal to or greater than the average expenditures of the program for the 2 full fiscal years preceding January 6, 1983.

- Determine whether the cost of the State program was not included as costs claimed on the Federal/State program.

D. Special Reporting Requirements

The State shall submit a State Enforcement Plan (SEP) for the conduct of an effective safety program. Such a plan, upon acceptance by FHWA, will serve as the basis for monitoring and evaluating performance of the State under the grant. The plan will be resubmitted, with revisions as necessary, in applications for reapproval in following years. The designated State agency shall agree to prepare and submit all reports required in connection with SEP or other conditions of the grant to FHWA, upon request. (49 CFR 350.11)

Suggested Audit Procedures

- Review the process and procedures used for preparing SEP.
- Ensure that the plan is accurately prepared.
- Determine if all changes to the plan are resubmitted for FHWA approval.
- Determine if the State adheres to the plan while carrying out the program.

E. Special Tests and Provisions

There are no special tests or provisions.

URBAN MASS TRANSPORTATION

Capital Improvement Grants

20.500

I. PROGRAM OBJECTIVES

The objectives of the Discretionary Capital Grants Program under Section 3 of the Urban Mass Transportation Act of 1964, as amended, are to assist in financing the acquisition, construction, and improvement of facilities and equipment for use in mass transportation service in urban areas and to coordinate services with highway and other transportation organizations in such areas.

II. PROGRAM PROCEDURES

Grants are awarded to public agencies upon approval of applications for specific projects submitted to the Urban Mass Transportation Administration (UMTA). UMTA monitors progress through onsite inspections, quarterly progress and financial status reports, and biennial certifications, and then provides funds based on a project's progress.

III. COMPLIANCE REQUIREMENTS AND SPECIAL AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Funds must be expended as specified in the grant award letter and the grant agreement, which incorporates the grantee's application by reference. (Section 3, UMTA Act of 1964, as amended)

Suggested Audit Procedures

- Review the grant award to determine Federal participation and amount limit and allowable costs.
- Test the expenditure and related records for compliance with the grant award.

B. Eligibility

The author is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

- The grantee must pay at least the local share percentage as referenced in the grant contract.
- Local funds must be applied to the uses for which they were committed. (Section 3, UMTA Act of 1964, as amended)

Suggested Audit Procedures

- Compare the net project cost with that in the grant contract to ascertain allowable expenses.
- Review financial records and determine the acceptability of sources and amounts of the grantee's local share.
- Determine whether local funds were correctly applied.

Compliance Requirement

The grantee must implement its approved Disadvantaged Business Enterprise (DBE) programs, including the requirement to meet its goal for the use of DBEs as approved by UMTA, or show good-faith efforts undertaken to meet these goals. (UMTA Circular 4716.1A)

Suggested Audit Procedure

Examine grantee's contract awards and expenditures to ascertain acceptability of DBE program implementation.

Compliance Requirement

The grantee must undertake mitigation measures agreed to during environmental review of the project and committed in Environmental Assessments, Environmental Impact Statements, and the UMTA Record of Decision prior to grant approval. (Section 14, UMTA Act of 1964, as amended)

Suggested Audit Procedures

- Review the grant application, Environmental Assessment, Environmental Impact Statement and the UMTA Record of Decision to establish grantee's commitments.
- Establish that all committed mitigation measures are being taken or have been taken to meet the grantee's commitments.

D. Special Reporting Requirements

Compliance Requirement

Grantees must certify every other year as to their use of project facilities. This requirement is applicable to all grants as outlined in UMTA Circular 5010.1A, "Urban Mass Transportation Project Management Guidelines for Grantees."

Suggested Audit Procedures

- Examine certification for completeness and timeliness of submission.
- Determine the accuracy of the certifications by tracing information to underlying data, such as facilities use reports.
- Verify certification by checking property management records including disposition actions.

Compliance Requirement

Grantees must submit quarterly DBE Progress Reports (UMTA Circular 4716.1B) documenting actual utilization, Project Progress Reports, and reports of significant events (UMTA Circular 5010.1A).

Suggested Audit Procedures

- Review grantee's DBE contract expenditures (as opposed to contract awards) as outlined in UMTA Circular 4716.1.
- Review the reports and trace the information to underlying data to determine completeness and accuracy.

E. Special Tests and Provisions

Compliance Requirements

Charter service provided through August 11, 1987, by a recipient that was providing charter service on May 13, 1987, must conform to the following requirements. A recipient may only provide charter bus service using UMTA-funded equipment and facilities if it is incidental to the provision of mass transportation service. In addition, if a recipient provides intercity charter bus service and earns more than $15,000 in charter revenues during its last fiscal year, the UMTA recipient must enter into an agreement with UMTA that provides that (1) annual charter revenues will cover annual charter service costs, and (2) the recipient's charter service rate will not be predatory. (49 CFR 604)

Charter service provided after August 11, 1987, must conform to UMTA's new charter service regulations. A UMTA recipient may not provide any charter service unless such service is incidental and either (1) the recipient has determined that there is no willing and able private operator in accordance with the procedures of the regulations; or (2) UMTA has granted a hardship exception; or (3) UMTA has granted a special events exception; or (4) the recipient leases nonaccessible equipment to a private operator that lacks capacity; or (5) the recipient leases accessible buses to a private operator that has exhausted its own capacity; or (6) all the private operators in the geographical area have entered into an agreement with the recipient expressing the conditions under which the recipient may provide specific charter service. The recipient must file two copies of a charter agreement reflecting the new requirements of the regulations.

Suggested Audit Procedure

Review the charter bus agreement, charter bus complaints filed with UMTA, and charter financial records and schedules to determine whether: (1) the charter service is incidental to the provision of the recipient's mass transportation service; (2) the grantee has a valid charter agreement with UMTA, if required; (3) the grantee is complying with the costs and revenue requirements in its agreement; and (4) the grantee followed the notice of hearing procedures before entering into the charter bus service agreement with UMTA.

Compliance Requirement

Disposal of realty and related transit equipment must be at current market value, and a portion of the funds received must be returned to UMTA in proportion to the original percentage of Federal funds contributed by UMTA. (UMTA Circular 5010.1A)

Suggested Audit Procedures

- Interview responsible officials and review disposition records to determine whether there was any disposal of realty or related transit equipment.
- Determine if prior UMTA approval was obtained for the disposal.
- Ascertain disposal prices for disposed realty and equipment.
- Obtain current market values at date of disposal for disposed realty and equipment.
- Ascertain portion of initial acquisition cost financed by Federal funds.
- Review financial records and determine adequacy of amounts credited or returned to the Federal Government as specified in UMTA's approval of the dispositions.

Compliance Requirement

The grantee will not engage in school bus operations exclusively for the transportation of students and school personnel in competition with private school bus operators, except in accordance with the exceptions delineated in 49 CFR 605. If the grantee does engage in exclusive school bus operations, no UMTA-funded equipment or facilities are to be used for the purpose. Tripper service may be provided if (1) all service is open to the public; (2) trips serve the grantee's regular service stops; and (3) trips are delineated on the grantee's route schedules and maps. (49 CFR 605)

Suggested Audit Procedure

Review the school bus agreement, school bus complaints filed with UMTA, and route maps and schedules to determine whether the grantee (1) has a valid school bus agreement if the grantee provides exclusive school bus service and (2) complies with the regulations if any tripper bus service is provided.

Compliance Requirements

The grantee must comply with the basic "Buy America" requirement. Federal funds must not be obligated unless steel and manufactured products used in UMTA-funded projects are produced in the United States.

There are four exceptions to the basic "Buy America" requirements:

- The basic requirement will not apply if its application is not in the public interest.
- The basic requirement will not apply if materials and products being procured are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality.
- The basic requirement will not apply in the case of the procurement of buses and other rolling stock (including train control, communication, and traction power equipment) if the cost of components and subcomponents produced in the United States is more than 50 percent of the cost of all components of the vehicles or equipment and if final assembly takes place in the United States.
- The basic requirement will not apply if the inclusion of domestic material will increase the cost of the overall project contract by more than 25 percent.

A manufactured product is defined as a product produced as a result of a manufacturing process. A manufacturing process is defined as a process whereby an original material is changed or transformed into an article that, because of the process, is different from the original product.

Compliance Requirements

For the acquisition of all rolling stock and communications equipment, traction power equipment, and train control equipment, the item being procured will be considered to comply with the "Buy America" requirements if the cost of the components and subcomponents of the item that are produced in the United States is more than 50 percent of the cost of all components and the final assembly takes place in the United States.

Section 337 of the Surface Transportation and Uniform Relocation Assistance Act of 1987, added the word "subcomponent" to this requirement. Although the statute itself contains no additional guidance, the report accompanying the statute indicates that Congress intended that a "component" be considered a "domestic" item if 50 percent of the "subcomponents" of the

component, by cost, is of domestic origin and if the manufacture of the component takes place in the United States. It is UMTA's position that if a "component" meets this test, and is determined to be "domestic," the entire cost of the component is counted as being of U.S. origin in evaluating the cost of the "components" of the "end-product."

The statute also does not specifically address the treatment of "subcomponents" that are of U.S. origin, exported and manufactured into a component. However, the report indicates that "the conferees ... intend that American subcomponents incorporated into foreign components should be counted towards meeting the domestic content requirement." Based on this language, it is UMTA's position that U.S. source "subcomponents" that do not undergo further machining after being exported retain their U.S. identity when the cost of components is calculated. For example, if a component contains U.S. subcomponents valued at 75 percent of the total value of the components, that value is carried over when the calculation of the component is made to determine whether the 50 percent test is met (i.e., if the component is valued at $100, when the cost of components is calculated, $75 is considered as being of U.S. origin and $25 is considered as being of foreign origin.

A responsive bidder must submit the appropriate "Buy America" certificate as required by either 49 CFR 661.6 or 661.12.

Suggested Audit Procedure

- Review solicitations for steel or manufactured products to establish that the grantee has included a "Buy America" provision.
- Review "Buy America" certifications to ensure that the language of any such certifications is consistent with statutory requirements. If no "Buy America" certificate exists, determine whether any "Buy America" waivers have been requested or granted.

URBAN MASS TRANSPORTATION
Capital and Operating Assistance Formula Grants
20.507

I. PROGRAM OBJECTIVES

The objective of the Formula Planning, Capital, and Operating Assistance Program under Section 9 of the Urban Mass Transportation Act of 1964, as amended, is to assist in financing the planning, acquisition, construction, and improvement of facilities and equipment in mass transportation service and the payment of operating expenses to improve or continue such service by operation, lease, contract, or otherwise.

II. PROGRAM PROCEDURES

Grants are awarded to public agencies on approval of applications for specific programs of projects submitted to UMTA. UMTA monitors progress through onsite inspections, quarterly progress and financial status reports, and biennial certifications and provides funds based on a project's progress. The Surface Transportation Assistance Act of 1982 (the "Act") requires UMTA to perform reviews and evaluations of Section 9 grant activities at least every 3 years. UMTA Order 9010.1, "Triennial Reviews," dated February 1, 1985, provides guidance to UMTA staff and grantees on the conduct of triennial reviews. These reviews are conducted with specific reference to compliance with statutory and administrative requirements and consistency of actual program activities with (1) the approved program of projects and (2) the planning process required under Section 8 of the Act.

III. COMPLIANCE REQUIREMENTS AND SPECIAL AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Funds must be expended as specified in the grant award letter and the grant agreement, which incorporates the grantee's application by reference. (Sections 5, 8, 9 and 9A, UMTA Act of 1964, as amended)

Suggested Audit Procedures

- Review the grant award to determine Federal participation rates, categories of allowable costs, and the Federal dollar limit on the grant.
- Test the expenditure and related records for compliance with the grant award.

B. Eligibility

The author is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

For planning and capital projects, the grantee must pay at least the local share percentage specified in the grant contract. (Section 9 of the UMTA Act of 1964, as amended)

Suggested Audit Procedures

- Compare the total reported project cost with the financial records and the grant contract to determine allowability and unacceptability of the claimed expenses.
- Review financial records and determine the sources, amounts, and acceptability of grantee's local share.

Compliance Requirements

- For operating assistance projects, the Federal share cannot exceed the smallest of the following: (1) the amount the local govern-

ment contributed; (2) 50 percent of the net project cost; (3) the operating deficit after adding local funds but before adding UMTA funds; or (4) the maximum amount of the UMTA grant.

- Local funds must be applied to the uses for which they were committed. (Section 9(e)(3)(A), UMTA Act of 1964, as amended)

Suggested Audit Procedures

- Confirm whether the net project cost, the operating deficit, local contribution, and the amount of the UMTA grant are correct and properly documented.
- Ascertain the amount of the Federal share.
- Determine whether local funds were correctly applied.

Compliance Requirement

The grantee must implement its approved DBE programs, including the requirement to meet its goal for the use of DBEs as approved by UMTA, or show good-faith efforts undertaken to meet these goals. (UMTA Circular 4716.1)

Suggested Audit Procedure

Examine the grantee's contract awards and expenditures to determine acceptability of DBE program implementation.

Compliance Requirement

The program of projects must provide for the participation of private mass transportation companies to the maximum extent feasible. Such participation must ensure open competition among transportation providers. (Sections 9 and 9A, UMTA Act of 1964, as amended)

Suggested Audit Procedure

Review procurement files, board minutes, and so forth, to determine whether (1) private operators were actively sought to participate in planning new or restructured transit services; (2) it was considered whether services might be provided at a reduced or no subsidy; and (3) proposals for subsidized services were solicited from private carriers.

D. Special Reporting Requirements

Compliance Requirement

The following financial report must be submitted for this program: Statement of Revenue and Expenses—quarterly. (UMTA Circular 5010.1A)

Suggested Audit Procedure

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

Compliance Requirement

Grantees must submit a quarterly DBE Progress Report (UMTA Circular 4716.1A) documenting actual use, Project Program Reports, and reports of significant events. (UMTA Circular 5010.1A)

Suggested Audit Procedures

- Review grantee's DBE contract expenditures (as opposed to contract awards) as outlined in UMTA Circular 4716.1.
- Review the reports and trace the information to underlying data to determine completeness and accuracy.

E. Special Tests and Provisions

Compliance Requirements

Charter service provided through August 11, 1987, by a recipient that was providing charter service on May 13, 1987, must conform to the following requirements. A recipient may only provide charter bus service using UMTA-funded equipment and facilities if it is incidental to the provision of mass transportation service. In addition, if a recipient provides intercity charter bus service and earns more than $15,000 in charter revenues during its last fiscal year, the UMTA recipient must enter into an agreement with UMTA that provides that (1) annual charter revenue will cover annual charter service costs and (2) the recipient's charter service rate will not be predatory. (49 CFR 604)

Charter service provided after August 11, 1987, must conform to UMTA's new charter service regulations. A UMTA recipient may not provide any charter service unless such service is incidental and either (1) the recipient has determined that there is no willing and able private operator in accordance with the procedures of the regulations; or (2) UMTA has granted a hardship exception; or (3) UMTA has granted a special events exception; or (4) the recipient leases nonaccessible equipment to a private operator that lacks capacity; or (5) the recipient leases accessible buses to a private operator that has exhausted its own capacity; or (6) all the private operators in the geographical area have entered into an agreement with the

recipient expressing the conditions under which the recipient may provide specific charter service. The recipient must file two copies of a charter agreement reflecting the new requirements of the regulations.

Suggested Audit Procedure

Review the charter bus agreement, charter bus complaints filed with UMTA, and charter financial records and schedules to determine whether (1) the charter service is incidental to the provisions of the recipient's mass transportation service; (2) the grantee has a valid charter agreement with UMTA, if required; (3) the grantee is complying with the cost and revenue requirements in its agreement; and (4) the grantee followed the notice of hearing procedures before entering into the charter bus agreement with UMTA.

Compliance Requirement

The grantee will not engage in school bus operations exclusively for the transportation of students and school personnel in competition with private school bus operators, except in accordance with the exceptions delineated 49 CFR 605. If the grantee does engage in exclusive school bus operations, no UMTA-funded equipment or facilities are to be used for the purpose. Tripper services may be provided if (1) all service is open to the public; (2) trips serve the grantee's regular service stops; and (3) trips are delineated on the grantees route schedules and maps. (49 CFR 605)

Suggested Audit Procedure

Review the school bus agreement, school bus complaints filed with UMTA, and route maps and schedules to determine whether the grantee (1) has a valid school bus agreement if the grantee provides exclusive school bus service and (2) complies with the regulation's restrictions if any tripper bus service is provided.

Compliance Requirement

All applicants for Section 9 or 9A grants and any person or organization to receive benefits directly from such grants are subject to both the reporting system and the uniform system of accounts and records prescribed under Section 15 of the Urban Mass Transportation Act of 1964, as amended. (49 CFR 630.2)

Suggested Audit Procedures

- Determine whether a system is in place and maintained for recording data in accordance with Section 15 definitions.
- Establish whether source documents are available to support the reported data (must be kept for 3 years following UMTA's receipt of the Section 15 report).
- Determine if a system is in place to record these data on a continuing basis.
- Determine if a system of internal controls exists to ensure accuracy of the data collection process and recording system.
- Establish that data collection methods are those suggested by UMTA or a least equivalent in ensuring quality and precision.

Compliance Requirement

In the development of a program or project and in considering significant changes in service or routes, the grantee must afford an adequate opportunity for a public hearing and must consider the views of interested parties. (49 CFR 635)

Suggested Audit Procedures

Review public hearing notices, transcripts, and implementing documents to determine whether (1) adequate notice of opportunity for a public hearing was given; (2) a process, if required, exists and is being used to solicit and consider public comments before major fare and service changes are made; and (3) the grantee had a logical rationale for accepting or rejecting public comments when implementing the UMTA project or program or in delivering its service.

Compliance Requirement

Disposal of realty and related transit equipment must be at current market value, and a portion of the funds received must be returned to UMTA in proportion to the original percentage of Federal funds contributed by UMTA. (UMTA Circular 5010.1A)

Suggested Audit Procedures

- Interview responsible officials, review disposition records, and determine whether there was any disposal of realty or related transit equipment.
- Determine if the necessary UMTA approvals were obtained prior to disposing of the property.

- Ascertain disposal prices for disposed realty and equipment.
- Obtain current market values at date of disposal for disposed realty and equipment.
- Ascertain portion of initial acquisition cost financed by Federal funds.
- Review financial records and determine adequacy of amounts credited or returned as required in UMTA's approval for disposition.

Compliance Requirement

The grantee must undertake mitigation measures agreed to during environmental review of the project and committed in Environmental Assessments, Environmental Impact Statements, and the UMTA Record of Decision prior to grant approval. (23 CFR 771)

Suggested Audit Procedures

- Review the grant application, Environmental Assessment, Environmental Impact Statement, and the UMTA Record of Decision to establish grantee's commitments.
- Establish whether all committed mitigation measures are being taken or have been taken.

Compliance Requirement

The fare charged elderly and handicapped persons and holders of medicare cards during off-peak hours must not exceed one-half of the rates generally applicable to other persons at peak hours. (Sections 5(m) and 9(e)(3)(C) and (D), UMTA Act of 1964, as amended)

Suggested Audit Procedures

- Review grantee's official fare policy to establish whether it conforms to UMTA program guidance.
- Review grantee's schedules of fares and routes to establish whether reasonable steps have been taken to implement the half-fare policy.

Compliance Requirements

The grantee must comply with the basic "Buy America" requirement. Federal funds must not be obligated unless steel and manufactured products used in UMTA-funded projects are produced in the United States.

There are four exceptions to the basic "Buy America" requirements:

- The basic requirement will not apply if its application is not in the public interest.
- The basic requirement will not apply if materials and products being procured are not produced in the United States in sufficient and reasonably available quantities and of a satisfactory quality.
- The basic requirement will not apply in the case of the procurement of buses and other rolling stock (including train control, communication, and traction power equipment) if the cost of components and subcomponents produced in the United States is more than 50 percent of the cost of all components of the vehicles or equipment and if final assembly takes place in the United States.
- The basic requirement will not apply if the inclusion of domestic material will increase the cost of the overall project contract by more than 25 percent.

A manufactured product is defined as a product produced as a result of a manufacturing process. A manufacturing process is defined as a process whereby an original material is changed or transformed into an article that, because of the process, is different from the original product.

Compliance Requirements

For the acquisition of all rolling stock and communications equipment, traction power equipment, and train control equipment, the item being procured will be considered to comply with the "Buy America" requirements if the cost of the components and subcomponents of the item that are produced in the United States is more than 50 percent of the cost of all components and the final assembly takes place in the United States.

Section 337 of the Surface Transportation and Uniform Relocation Assistance Act of 1987 added the word "subcomponent" to this requirement. Although the statute itself contains no additional guidance, the report accompanying the statute indicates that Congress intended that a "component" is to be considered a "domestic" item if 50 percent of the "subcomponents" of the component, by cost, is of domestic origin and if the manufacture of the component takes place in the United States. It is UMTA's position that if a "component" meets this test, and is determined to be "domestic," the entire cost of the component is counted as being of U.S. origin in evaluating

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the cost of the "components" of the "end-product."

The statute also does not specifically address the treatment of the "subcomponents" that are of U.S. origin, exported and manufactured into a component. However, the report indicates that "the conferees ... intend that American subcomponents incorporated into foreign components should be counted towards meeting the domestic content requirement." Based on this language, it is UMTA's position that U.S. source "subcomponents" that do not undergo further machining after being exported retain their U.S. identity when the cost of components is calculated. For example, if a component contains U.S. subcomponents valued at 75 percent of the total value of the components, that value is carried over when the calculation of the component is made to determine whether the 50 percent test is met (i.e., if the component is valued at $100, when the cost of components is calculated, $75 is considered as being of U.S. origin and $25 is considered as being of foreign origin.

A responsive bidder must submit the appropriate "Buy America" certificate as required by either 49 CFR 661.6 or 661.12.

Suggested Audit Procedures

- Review solicitations for steel or manufactured products to establish that the grantee has included a "Buy America" provision.
- Review "Buy America" certifications to ensure that the language of any such certifications is consistent with statutory requirements. If no "Buy America" certificate exists, determine whether any "Buy America" waivers have been requested or granted.

STATE AND COMMUNITY HIGHWAY SAFETY

20.600

I. PROGRAM OBJECTIVES

The objective of the State and Community Highway Safety Program is to provide a coordinated national highway safety program to reduce traffic accidents, deaths, injuries, and property damage.

II. PROGRAM PROCEDURES

Funds are provided to the States, following submission of their highway safety plans, in accordance with a predefined formula. The State distributes at least 40 percent of the funds to political subdivisions of the State, to be expended on local projects. (23 U.S.C. 402(b)(l)(c))

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Funds must be expended as specified in the Highway Safety Plan.

Suggested Audit Procedures

- Review the State highway safety plan approved by the National Highway Traffic Safety Administration (NHTSA) to determine the allowable program areas and matching Federal share.
- Determine whether the claimed costs are within the NHTSA-approved program areas and that the amount claimed does not exceed the Federal share.

Compliance Requirement

The NHTSA Order 462–13A, "Principles for Determining Cost Applicable to Grants and Contracts with State and Local Governments," identifies certain specific costs that are not allowable.

Suggested Audit Procedures

- Ascertain whether the claimed costs are allowable under the limitations and conditions of NHTSA Order 462–13A.
- Determine whether the costs claimed meet the eligibility criteria specified in OMB Circular A–87.

Compliance Requirement

At least 40 percent of Federal funds apportioned to a State for any fiscal year must be expended by or for the political subdivisions of the State in carrying out local highway safety programs. (23 CFR 1204.4—Highway Safety Program Manual; 23 U.S.C. 402(b)(l)(c))

Suggested Audit Procedures

- Ascertain the total apportionment of Federal funds.
- Identify programs that are operated by or for the political subdivisions, and determine the amount expended.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort and/or Earmarking Requirements

Compliance Requirements

- The State must pay at least 25 percent, or the applicable sliding scale rate as stated in the grant award, of the total cost of the program.
- The State must pay at least 50 percent of the costs for planning and administration, and such cost shall not exceed 10 percent of the funds received by the State. (23 CFR 1204.4, 1252.4; 23 U.S.C. 120(a), 402(d), 406(c))

Suggested Audit Procedures

- Ascertain the total cost of the program.
- Review financial records and determine amount and manner in which the State pays its share.

Compliance Requirement

The Highway Safety Act of 1987 requires that not less than 2 percent of the amount apportioned to each State must be used to encourage the use of safety belts. (Section 202(c)(2), Highway Safety Act of 1987)

Suggested Audit Procedures

- Determine the amount expended by the State for programs to encourage safety belt use.
- Ascertain whether the program amount was equal to or greater than 2 percent of the amount allocated to the State for the fiscal year.

D. Special Reporting Requirements

Compliance Requirement

The following financial report must be submitted periodically for this program: Highway Safety Plan Cost Summary (HS–217).

Suggested Audit Procedures

- Determine if the Highway Safety Plan Cost Summary (HS–217) is being submitted as required.
- Review the process of preparing this report to ascertain that accurate information is being generated and reported.

E. Special Tests and Provisions

There are no special tests or provisions.

Section I. GENERAL SERVICES ADMINISTRATION

DONATION OF FEDERAL SURPLUS PERSONAL PROPERTY

39.003

I. PROGRAM OBJECTIVE

The objective of the Surplus Personal Property Donation Program is to distribute Federal surplus personal property to State and local public agencies and certain nonprofit, tax-exempt activities.

II. PROGRAM PROCEDURES

Federal surplus personal property is transferred by the Federal Government to the State Agencies for Surplus Property (SASP). SASPs, as State agents, have entered into agreements, referred to as State Plans, with the Federal Government to administer the program for the donation of Federal surplus personal property.

SASPs distribute the Federal surplus property through donation to eligible donees (public agencies and certain nonprofit organizations) and are responsible for ensuring donee compliance with donation provisions and proper use of property. In addition, SASPs are responsible for determining donee eligibility and for ensuring property accountability while in storage. SASPs can recover their operating costs by charging an established fee to participating donees.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

SASPs are required to ensure that donated property is being used for the purpose for which it was acquired, to include any donation terms, conditions, reservations, and restrictions agreed to by the donee and imposed on the property by SASP or the Federal Government. (41 CFR 101–44.208)

Suggested Audit Procedures

- Review program files and records of SASP to determine if utilization surveys are made on a recurring basis. These surveys should include an evaluation of compliance with any donation terms and conditions specified by SASP or the Federal Government. The audit should also determine if corrective actions have been taken on discrepancies reported in previous audits or reviews.
- Evaluate the State's monitoring system for determining whether the surplus personal property is in use or has been used for the length of time required by the donation terms and is being used in conformance with the stated purpose.
- Perform tests of the system to evaluate effectiveness of the design in preventing or detecting material noncompliance.
- Review donation documentation at SASP to determine if donees are receiving reasonable quantities of usable items for the stated purpose of the donee's program.

B. Eligibility

Compliance Requirement

SASP is required to operate a control system that reviews the determinations of eligibility and updates eligibility determinations on a

recurring basis. Standard guidelines and procedures, contained in the Federal Property Management Regulations (FPMR), are to be followed by SASP. (41 CFR 101–44.207)

Suggested Audit Procedures

- Review SASP eligibility-determination procedures and ensure that the files contain required applications, certifications, and supporting documentation for each category of donee described in FPMR.
- Ensure that donee eligibility files are updated not less than once every 3 years, or annually for donees whose eligibility depends on annual appropriations, annual licensing, or annual certification.

C. Matching, Level of Effort, and/or Earmarking Requirements.

There are no matching, level of effort, and/or earmarking requirements.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

Surplus personal property obtained by SASP remains Federal property until it is distributed among eligible donees within the State. Procedures and facilities should ensure that the surplus property is properly accounted for and that the surplus property is adequately warehoused. (41 CFR 101–44.204 and 205)

Suggested Audit Procedures

- Determine if SASP has adequate inventory procedures and records to account for and control the surplus property when requested, received, stored, and distributed.
- Sample individual items or lots of inventory records to test controls over the locator system and the accuracy of inventory balances. Review the records of a physical inventory or observe one.
- Inspect the warehouse facilities to ensure that the property is protected from the elements, theft, and damage.

Compliance Requirement

SASP is responsible for fair and equitable distribution of surplus personal property through donation to all eligible donees in the State.

Suggested Audit Procedures

- Determine the method of ensuring fair and equitable distribution of property within the State as per the State plan of operation.
- Test whether periodic application of the approved method is made on a timely and recurring basis.
- Determine if State service and handling charges are fair and equitable to all donees and in compliance with the schedule in the State plan of operation.

Section J. ENVIRONMENTAL PROTECTION AGENCY

AIR POLLUTION CONTROL PROGRAM SUPPORT

66.001

I. PROGRAM OBJECTIVES

The objectives of the Air Pollution Control Grants Program are to assist State, municipal, interstate, and intermunicipal agencies in planning, developing, establishing, improving, and maintaining adequate programs for prevention and control of air pollution from all sources, and to implement national primary and secondary ambient air quality standards.

II. PROGRAM PROCEDURES

Funds are provided by the Office of Air, Noise, and Radiation of the U.S. Environmental Protection Agency (EPA) to State, local, and regional air pollution control agencies following approval of a project application.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Costs Allowed or Unallowed

Compliance Requirement

Funds must be used in accordance with the purposes enumerated in the grant award. (40 CFR 30.700, 30.705, 30.710, 30.715, and 30.720)

Suggested Audit Procedures

- Review grant award.
- Test expenditure and related records.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The grantee must pay either 25 or 33⅓ percent of the costs of planning and developing a program. The grantee must pay either 40 percent or 50 percent of the ongoing project costs. (State, interstate, and intermunicipal programs with an approved State implementation plan pay the lesser amount.) (40 CFR 35.205)

Suggested Audit Procedures

- Examine the grant award and ascertain the required match.
- Review financial records and ascertain amount of project financed by grantee.

Compliance Requirement

Non-Federal recurring expenditures cannot be less than the non-Federal recurring expenditures during the previous fiscal year. (40 CFR 35.210)

Suggested Audit Procedures

- Review financial records and reports and determine total expenditures for the previous and current periods.
- Determine the amount of non-Federal recurring expenditures during the previous and current periods.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

There are no special tests or provisions.

CONSTRUCTION GRANTS FOR WASTEWATER TREATMENT WORKS

66.418

I. PROGRAM OBJECTIVES

The primary objective of the Construction Grants for Wastewater Treatment Works Program is to provide financial assistance to local governments in constructing municipal wastewater treatment works needed to meet State and Federal water quality requirements.

II. PROGRAM PROCEDURES

Construction grants are provided by EPA's Office of Water to States, municipalities, interstate agencies, and intermunicipal agencies to fund construction of municipal wastewater treatment works, following approval of the grant application by the State water pollution control agency and EPA.

Since the Clean Water Act and the regulations governing construction grants have been modified over the years, it is essential that auditors consult EPA's Office of Municipal Pollution Control Publication, *Regulation and Policy Matrices—A Guide to the Rules Governing Grants Awarded under the Construction Grants Program*. This book was published in April 1985 and is supplemented with yearly updates. The *Guide* will assist auditors in determining the applicable statutes and regulations for a particular grant.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Costs Allowed or Unallowed

EPA makes or arranges for audits of contractors involved in this program. Auditors of local governments should contact the Regional Inspector General of EPA to ascertain the status of these audits and should rely on them to the maximum extent practicable.

Compliance Requirements

Federal funds can be expended only for allowable costs specified in the grant award.

Unallowable costs are any costs not reasonable and necessary for the construction of a treatment works project, including, but not limited to, portions of the proposed project identified as ineligible by EPA in its review of plans and specifications; costs outside the scope of the approved project; interest on bonds or any other form of indebtedness required to finance the project; and ordinary operating expenses of local government, such as salaries and expenses of elected or appointed officials.

Suggested Audit Procedures

- Review the grant award and the project file, and determine allowable costs, unallowable costs, and any portions of work designated as ineligible for Federal participation.
- Test the financial records and reports, and determine whether costs were charged to the project as specified in the grant award.
- Ascertain whether any unallowable or ineligible costs have been charged to the projects.

Compliance Requirement

The Regional Administrator's prior written approval is required for project changes that (1) alter the performance standards or the type of treatment provided by the project; (2) substantially alter the location, size, capacity, or quality of any major part of the project; (3) increase the amount of Federal funds needed to complete the project; and (4) for subagreements amounting to $100,000 or more, where the grantee's procurement system has not been certified.

Suggested Audit Procedures

- Determine from grantee records whether there have been any project changes or subagreements over $100,000.
- Review copies of documents showing EPA approval of change orders and subagreements.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- Grants made under Public Law 84–660 may provide for Federal participation of up to 55 percent of eligible project costs.
- Grants made under Public Law 92–500 generally provide for Federal participation of 75 percent of eligible project costs.
- Grants made under Public Law 97–117 after September 30, 1984, generally provide for Federal participation of 55 percent of eligible project costs, except that the Federal participation shall be 75 percent for projects the initial phase or segment of which was funded prior to October 1, 1984.
- After September 30, 1978, projects that incorporate innovative or alternative technologies may be funded up to 85 percent of eligible costs. If such an innovative project fails, then 100 percent of the modification or replacement costs can be reimbursed.

Suggested Audit Procedures

- Review the grant award and determine the required matching percentage.
- Ascertain the amount reported as total costs and review supporting documentation to ensure that the charges are allocable, reasonable, and allowable.
- Test financial records and determine whether the matching requirement was met for the costs chargeable to the grant.

D. Special Reporting Requirements

Compliance Requirement

On or after December 29, 1981, the grantee shall certify 1 year after the project begins operating that the project is capable of meeting the project performance standards and the enforceable requirements of the Clean Water Act. If affirmative certification cannot be made, the grantee must correct any deficiencies, except for modification or replacement of innovative or alternative technology projects, in a timely manner and at non-Federal expense.

Suggested Audit Procedures

- Determine if certification of compliance with specifications and enforceable requirements was made.
- If certification indicated that the facility was not in compliance, determine if deficiencies were corrected at non-Federal expense.

E. Special Tests and Provisions

Compliance Requirement

The grantee must make provision, including developing an operation and maintenance manual, to ensure economic and effective operation and maintenance of the treatment works in accordance with a final plan of operation.

Suggested Audit Procedure

Determine whether the grantee has developed a final plan of operation and maintenance manual for the treatment works.

Compliance Requirement

The grantee shall develop and implement a user charge system (UCS) to cover the costs of operating, maintaining, and replacing the treatment works. The UCS may be based on either actual use or encompassed in ad valorem taxes.

Suggested Audit Procedures

- Review evidence of the grantee's user charge system and note any difficulties.
- Determine if the revenues projected to be generated through the user charges are reasonable to offset operation, maintenance, and replacement costs.

Compliance Requirement

The grantee shall assure that the ownership interest of the United States is properly recorded for all property costing $10,000 or more per unit and paid for by the Federal Government as an allowable cost.

Suggested Audit Procedures

- Review grantee claims to determine if there is any real property costing over $10,000 per unit for which reimbursement was obtained.
- Determine whether an ownership interest was properly recorded for the United States.

Compliance Requirement

The grantee shall maintain and operate the project to meet project performance standards and the enforceable requirements of the Clean Water Act.

Suggested Audit Procedures

- Review the recipient's National Pollution Discharge Elimination System Permit to identify the effluent limitations and other established requirements.
- Review grantee monitoring reports of effluent discharged from the treatment plant.

CONSTRUCTION MANAGEMENT ASSISTANCE

66.438

I. PROGRAM OBJECTIVES

The objective of the Construction Management Assistance Grants Program is to help States perform certain routine administrative functions of the construction grant program that formerly were performed by EPA.

II. PROGRAM PROCEDURES

The Office of Water provides Construction Management Assistance Grants to States that choose to enter into a delegation agreement with EPA for performing functions related to the award of construction grants to local governments that formerly were performed by EPA directly. The functions that the State performs are specified in the agreement and include activities such as (1) reviewing and certifying grant documents, including various technical, engineering, and economic analyses, subagreements, and contracts; (2) managing the grant directly for small communities that lack the requisite skills; and (3) reviewing the environmental assessments and user charge systems.

The State's performance is monitored by the appropriate EPA Regional Administrator, who may review the individual certifications of tasks performed or a brief checklist indicating that the specified functions were fulfilled.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Costs Allowed or Unallowed

Compliance Requirement

Federal funds can be expended only for delegated functions specified in the delegation agreement and for the hiring and training of staff personnel. (40 CFR 35.3010)

Suggested Audit Procedures

- Review delegation agreement.
- Test expenditure and related records.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

There are no matching, level of effort, or earmarking requirements.

D. Special Reporting Requirements

Compliance Requirement

The State must provide the appropriate EPA Regional Administrator with written certifications for each project stating that the requirements covered by the delegated functions have been met. (40 CFR 35.3020)

Suggested Audit Procedures

- Review delegation agreement.
- Examine copies of certifications and determine whether they are complete and whether they have been submitted.
- Trace information in selected certifications to the supporting documentation.

E. Special Tests and Provisions

There are no special tests or provisions.

CAPITALIZATION GRANTS FOR STATE REVOLVING FUNDS

66.458

I. PROGRAM OBJECTIVES

The primary objective of the State revolving fund (SRF) program is to provide financial assistance to State governments in establishing a water pollution control revolving fund for constructing municipal treatment works and for developing and implementing nonpoint source management programs and estuary management plans.

II. PROGRAM PROCEDURES

Capitalization grants are awarded to States by EPA's Regional Administrators to assist in providing loans and other types of financial assistance (but not grants).

Because space in this compliance supplement is limited, auditors should consult EPA's Office of Water Publication, *SRF Initial Guidance for State Revolving Funds* published in January 1988 (or latest revision). Within the guidance document, a section deals with the application of other Federal laws and authorities; auditors must be familiar with these requirements because they impact on SRF activities that are supported with funds "directly made available by" capitalization grants.

Copies of this publication are available from the Water Management Division of EPA Regional Offices. (EPA is planning to publish regulations for SRF; auditors should consult the Agency's Regional Offices to determine if regulations are in existence.)

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Costs Allowed or Unallowed

Compliance Requirements

Section 603 of the Clean Water Act authorizes seven uses of assistance provided under the SRF: loans, refinancing existing debt obligations, guarantee or purchase insurance for local obligations, guarantee SRF debt obligations, loan guarantees for similar revolving funds established by municipalities or intermunicipal agencies, and earned interest on fund accounts and SRF administration expenses. (See *SRF Initial Guidance for State Revolving Funds*, section entitled "Uses of State Revolving Loan Funds").

Funds in the SRF can be used to provide assistance to municipalities, intermunicipal, interstate, or State agencies (1) for constructing publicly owned treatment works; (2) for developing or implementing a nonpoint source pollution control program; and (3) for developing or implementing an estuary management plan. (See *SRF Initial Guidance for State Revolving Funds*, section entitled "Uses of State Revolving Loan Funds.")

Suggested Audit Procedure

Determine whether the fund is used for appropriate purposes in accordance with the Water Quality Act of 1987 and the State program.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

States are required to match Federal grant payments with an amount equal to 20 percent of the Federal grant payment (See *SRF Initial Guidance for State Revolving Funds*, section entitled "Major Legislative Provisions Affecting Capitalization Grant Agreements.")

Suggested Audit Procedures

- Ascertain that an SRF has a separate account or series of accounts dedicated to providing loans and other forms of financial assistance, but not grants.
- Review financial records to determine if the State deposited moneys equal 20 percent of the capitalization grants on or before receipt of the grant payment.

D. Special Reporting Requirements

The following reports must be submitted:

- Intended Use Plan.
- Annual Report (beginning the first fiscal year after the receipt of payments under Title VI) of the Clean Water Act.

Suggested Audit Procedure

Determine if the intended use plan and annual report were complete.

Compliance Requirement

All principal and interest payments on loans must be credited directly to the SRF. Repayment must begin within 1 year after project completion. Loans must be fully amortized not later than 20 years after project completion (See *SRF Initial Guidance for State Revolving Funds* in the section entitled "Uses of State Revolving Loan Funds".)

Suggested Audit Procedures

- Test related financial records to determine if repayments were currently and properly credited to the SRF.
- Determine that repayments began within 1 year of project completion for completed projects.

E. Special Tests and Provisions

The following compliance requirements are discussed in detail in the publication: *SRF Initial Guidance for State Revolving Funds* in the section entitled "Major Legislative Provisions Affecting Capitalization Grant Agreements."

Compliance Requirement

Capitalization grants, the State matching funds, and repayment of the first round of loans awarded from the grant must first be used for any treatment works that are part of the National Municipal Policy (NMP) universe, unless such treatment works are in compliance, are on an enforceable schedule, have an enforcement action filed, or have a funding commitment. A listing of wastewater treatment plants contained in the NMP universe can be obtained from EPA Regional Offices.

Suggested Audit Procedure

Determine whether the first use requirements have been followed.

Compliance Requirement

Binding commitments to provide SRF financial assistance to recipients must be in place within 1 year after the receipt of each capitalization grant payment. The binding commitments must equal at least 120 percent of each capitalization grant payment.

Suggested Audit Procedure

Determine that the State entered into binding commitments in accordance with the requirements of Title VI in an amount equal to 120 percent of the amount of each grant payment within 1 year after receipt of such grant payment.

Section K. DEPARTMENT OF ENERGY

PETROLEUM VIOLATION ESCROW FUNDS

[No Program Number]

I. PROGRAM OBJECTIVES

The objective of distributing petroleum violation escrow (PVE) funds to the States is to provide indirect restitution to persons injured as a result of oil overcharges.

Between August 1973 and January 1981, the Department of Energy (DOE) established and enforced controls on oil company allocations and pricing of crude oil and refined petroleum products. When DOE alleged that an oil company committed civil violations of its regulations, it resolved the violations primarily by negotiating settlements or by taking legal action in Federal courts.

In those instances where the parties injured by the oil companies' overcharges were not readily identifiable, the oil companies were required, among other actions, to make payments to a DOE oil overcharge escrow account at the U.S. Treasury. These funds and associated interest income are redistributed to injured parties or to the States based on the terms of legislation, court settlements, and DOE regulations.

From fiscal year 1982 to fiscal year 1987, $3.3 billion in oil overcharge funds were distributed to the States to fund Federal energy conservation and assistance programs, including energy grant programs administered by DOE and the Department of Health and Human Services (DHHS). The $3.3 billion compares with cumulative appropriations of $1.6 billion for DOE programs and $11.7 billion for DHHS programs. Distributions of PVE funds totaled $4.1 billion as of May 3, 1990 (see Schedules 1–3) and may ultimately reach $8 billion.

To ensure that the audit of an entity is in compliance with the Single Audit Act, auditors will need to identify receipts and disbursements of PVE funds and include them in the scope of the audit. Information on the receipt and expenditure of these funds may be fragmented among several State agencies; and the auditor may have to make inquiries at the Office of the Governor, the State Treasurer, the Attorney General, the State Energy Office, and other entities.

II. PROGRAM PROCEDURES

Legislation, court actions, and DOE consent orders specify that PVE funds are to be used as if they were received under one or more of four Federal energy-related grant programs administered by DOE, a block grant program administered by DHHS, or nongrant programs and projects as described in Section III.

DOE and DHHS procedures in approving and monitoring Federal energy-related grant programs are explained in Program Nos. 81.041, 81.042, 81.050, 81.052, and 13.789. The applicable grant regulations apply for any use of PVE funds for these programs.

For nongrant projects and programs, DOE reviews State expenditure proposals and advises the States whether or not the proposed uses meet court requirements. DOE also reviews an annual report submitted by the State concerning the amounts spent and how the funds were used.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

1. *Warner Amendment Funds.* Section 155 of the "Further Continuing Appropriations Act, Fiscal Year 1983," (the Warner Amendment), was enacted on December 21, 1982. It permitted the Secretary of Energy to disburse up to $200 million in PVE funds to the State Governors. The Act provided that these funds were to be used as if received under one or more of the five Federal energy-related conservation and assistance programs listed and described in subsequent sections of this guidance:

- State Energy Conservation Program (Program 81.041).
- Weatherization Assistance Program for Low-Income Persons (Program 81.042).
- Energy Extension Service Program (Program 81.050).
- Institutional Conservation Program (Program 81.052).
- Low-Income Home Energy Assistance Program (Program 13.789—Department of Health and Human Services).

The Act prohibits the use of Warner Amendment funds for administrative expenses, which are defined as those expenses that States have historically considered to be administrative expenses under each program. DOE policy requires that interest earned on Warner Amendment funds be used only for the specified purposes authorized by the Act.

2. *Exxon Funds.* In a February 26, 1986, decision, the U.S. District Court for the District of Columbia ordered the distribution of overcharge funds collected. The States can use the funds only for any or all of the five Federal conservation and assistance programs authorized under the Warner Amendment.

The following court-ordered compliance requirements pertain to Exxon funds:

- Interest earned on Exxon funds can be used only for the five authorized Federal conservation and assistance programs.
- Exxon funds can only be used to supplement and not supplant funds otherwise available for the programs.
- On June 9, 1986, the court issued a clarifying order that among other matters, denied State requests to use part of the Exxon funds for administrative expenses.

3. *Office of Hearings and Appeals (OHA) Second Stage Distributions.* As of May 3, 1990, $76 million of PVE funds received from refiners had been distributed or allocated to the States to carry out specific restitutionary projects or programs approved by DOE's OHA.

4. *Petroleum Overcharge Distribution and Restitution Act of 1986 (PODRA).* In October 1986, the President signed the "Omnibus Budget Reconciliation Act of 1986." Section 3003(d) of the Act provides for disbursement to the States of certain excess funds held in escrow accounts for use in energy conservation programs. Between 1987 and May 1990, $288 million in PODRA funds was made available to the States for the four statutory energy conservation and assistance programs administered by DOE. (See Programs 81.041, 81.042, 81.050, and 81.052.) The Act provides that the funds will be used in the same manner, to the same extent, under the same rulings and regulations, and for the same uses that Federal appropriated funds are made available and used under such program(s).

5. *Multi-District Litigation (M.D.L.) No. 378 Stripper Well Funds.* On July 7, 1986, the U.S. District Court for the District of Kansas approved a Settlement Agreement for M.D.L. 378 Stripper Well Exemption Litigation. The Agreement limited the States' use of oil overcharge funds to the five Federal energy conservation and assistance programs identified in the Warner Amendment and nongrant projects and programs approved by the DOE OHA, in Subpart V proceedings. Examples of approved OHA restitutionary programs include:

- Transportation:
  - *General Driving Public*: fuel-efficient traffic-signal programs, highway traffic management programs, motor fuel and recycling programs, highway and bridge maintenance and repair, and public transportation projects.
  - *Consumers*: car care clinics, energy education for drivers' training, ridesharing programs, marketing of State-supported

passenger rail and mass transit, and bicycle promotion program.

— *Commercial, Industrial, Government*: vehicle fleet-maintenance programs, transportation systems management assistance, remanufacturing/refitting transit buses, computerized school bus routing, alternative transportation fuel programs, and transit system refitting loan program.

- Residential:
  - — *Heating*: weatherization, retrofitting, tune-ups, energy audit, energy assistance, demonstration projects, data collection and dissemination, energy management services, conservation promotion programs, solar energy demonstration programs, and solar energy lending programs.
  - — *Electricity*: weatherization, energy auditing, energy assistance, promotion of high-efficiency appliances, and demonstration projects.
- Commercial:
  - — *Industrial/Agricultural*: energy loans, energy assistance, conservation, and biomass conservation.
  - — *Small Business/Government/Education*: energy accounting incentives, loans and technical assistance, energy audits, energy efficiency, and cogeneration.

Nongrant projects and programs referenced in the Consent Order that DOE entered in 1981 with the Standard Oil Company of California (Chevron) are as follows:

- Highway and bridge maintenance and repair.
- Ridesharing (i.e., vanpool and carpool) programs.
- Public transportation projects.
- Residential or commercial building energy audits.
- Grant or loan programs for weatherization or other energy conservation equipment installation.
- Energy assistance programs.
- Airport maintenance or improvement.
- Reduction in airport user fees.
- Energy conservation or energy research offices and administration.

In addition, the Agreement limited the States' use of oil overcharge funds to such other restitutionary programs as may be approved by the District Court.

The M.D.L. No. 378 Agreement authorized the States to spend up to 5 percent of the Stripper Well funds on administrative expenses. In November 1986, DOE's Under Secretary issued written guidance to the States, stating that Stripper Well funds were not to be used to pay attorneys' fees or litigation expenses related to the Exxon distribution.

Authorized administrative expenses include payment or reimbursement of attorneys' fees, expert witness fees, contractual obligations, and other related costs incurred in connection with the State's pursuit of crude oil violation claims. The Attorney General of a State, by written notice filed with the disbursing official, may designate the amount and manner of payment or reimbursement of litigation expenses. Administrative expenses also include other costs traditionally recognized as such by each State.

Stripper Well funds can be used only to supplement, not supplant, funds otherwise made available to the programs. Interest earned on the funds after receipt by the State will be used in the same manner as the basic funds.

The Stripper Well Agreement is the model to be used for determining authorized uses of PVE funds for the Diamond Shamrock and Texaco Settlements discussed below, and is expected to apply to future settlements.

6. *Diamond Shamrock Funds*. In May 1986, the U.S. District Court for the Southern District of Ohio, Eastern Division, ruled on the distribution of funds received from a settlement with Diamond Shamrock. These funds are to be used in the same manner as funds received under the Stripper Well Settlement Agreement discussed previously. However, the 5 percent limit on administrative costs is based on the total overcharge funds available to the States.

7. *Texaco Settlements*. DOE and Texaco, Inc., have agreed to a $1.25 billion settlement of alleged petroleum pricing violations. The funds received from Texaco will be disbursed for the same purposes and administered in the same manner as M.D.L No. 378 Stripper Well funds.

Suggested Audit Procedures

Where PVE funds are used for any of the five Federal energy-related conservation grant and assistance programs, the applicable audit procedures to be followed can be found in other sections of this compliance supplement (Programs 81.041, 81.042, 81.050, 81.052, and 13.789).

The following audit procedures are confined to unique aspects of legislation, settlement agreements, court decisions, or administrative findings pertaining to PVE funds, including the use of funds for nongrant projects and programs as earlier defined.

- Determine whether PVE funds have been deposited in interest-bearing accounts. If not or if the rate of interest is less than a market rate, determine whether this practice conforms with usual State investment policies and practices and question any deviations.
- Determine whether interest on PVE funds was spent or is reserved for authorized purposes. Question any misapplications of funds.
- Determine whether any Warner Amendment or Exxon funds were used to pay administrative expenses. If so, question the costs.
- Determine whether oil violation funds administered pursuant to the M.D.L. No. 378 Stripper Well Settlement were used to pay adminstrative expenses (including legal fees) applicable to the use of Exxon or Warner Amendment funds. If so, question these costs.
- Determine whether the State complied with the 5 percent administrative cost limitation applicable to M.D.L. No. 378, Diamond Shamrock, and Texaco Funds. If not, question any excess expenditures.
- For nongrant projects or programs funded with Stripper Well, Diamond Shamrock, and Texaco funds, obtain the State spending plan and DOE's comments on the plan. Question expenditures that are not project related or are incurred on projects or activities that DOE questioned as being inconsistent with court requirements.
- For OHA second stage distributions, obtain the State's proposal to use the funds and OHA's approval. Question expenditures that are inconsistent with OHA approved activities.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

Settlement agreements for Exxon and for M.D.L. No. 378 (which apply to DOE Stripper Well Exemption Litigation, the Diamond Shamrock and Texaco settlements and future settlements) require that funds received by each State be used to supplement, not supplant, funds otherwise available for such purposes under Federal or State law.

Suggested Audit Procedure

Review patterns of appropriations and expenditures to determine whether the State supplanted its contributions by substituting oil violation funds.

D. Special Reporting Requirements

Compliance Requirement

M.D.L. No. 378 requires that within 30 days from the close of each State's fiscal year, the State must submit a report to DOE and the Court concerning amounts spent and how they were spent.

Suggested Audit Procedures

See "General Requirements" section for procedures to be followed regarding the annual report.

E. Special Tests and Provisions

There are no special tests or provisions.

STATE ENERGY CONSERVATION

81.041

I. PROGRAM OBJECTIVES

The objectives of the State Energy Conservation Program (SECP) are to promote the conservation of energy and to reduce the rate of growth of energy demand through the development and implementation of a comprehensive State energy conservation program and the provision of Federal financial and technical assistance to States in support of the program. The SECP grant program is funded with both appropriated funds and PVE funds.

II. PROGRAM PROCEDURES

States submit an application regarding a plan and/or a supplemental plan to DOE. The application includes a description of the energy conservation goals to be achieved (including wherever practicable, an estimate of the energy to be saved), a total program budget identifying sources of funding, a budget and milestones for each program measure, and an explanation of how minimum criteria for required program measures shall be satisfied.

The States may enter into subagreements and provide grant funds to local administering agencies that have submitted approved plans.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- 10 CFR 420.12(a) states that no financial assistance provided to a State under this part shall be used:
  - For construction, such as construction of mass transit systems and exclusive bus lanes or for construction or repair of buildings or structures.
  - To purchase land, a building, or structure or interest therein.
  - To subsidize fares for public transportation.
  - To subsidize utility rate demonstrations or State insulation tax credits.
  - To conduct or purchase equipment to conduct research and development or demonstration of conservation techniques and technologies not commercially available.
- Demonstrations of commercially available conservation techniques and technologies are exempted from these prohibitions. (10 CFR 420.12(c))

Suggested Audit Procedures

- Obtain a copy of the approved plan or supplemental plan, together with implementing directives, to determine the administrative funds to be performed by the State and subgrantees.
- Review the State's procedures for overseeing subgrantee operations and evaluate for adequacy. Determine the status of the State's audits, prior or pending disallowances, or audit resolution. Report internal control weaknesses, such as failure to perform required audits and untimely audit resolution.
- Examine transactions and question expenditures for purposes that are specifically prohibited by program regulations or are not included in the approved State plan.

Compliance Requirement

No more than 20 percent of the financial assistance awarded to the State for the SECP program shall be used to purchase office supplies, library material, or other equipment whose purchase is not otherwise prohibited by this section. (10 CFR 420.12 (b))

Suggested Audit Procedures

- Determine how the State ensures compliance with the 20-percent limitation.
- Test the accuracy and completeness of the determination by examining accounts and expenditures. Question costs that exceed the limitation.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

Each State shall provide cash, in-kind contributions, or both, for SECP activities in an amount totaling not less than 20 percent of the financial assistance allocated to the State. The type and amount of the State cost-sharing shall be identified in the annual application for a plan. (10 CFR 420.3 (e))

Suggested Audit Procedures

- Determine the type and amount of the State's cost sharing identified in the annual application.
- Review financial and related records to ascertain the actual total Federal contribution, including PVE funds.
- Determine the amount and source of funds actually used by the State for its matching contribution. Question any contribution shortfalls.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

There are no special tests or provisions.

WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS

81.042

I. PROGRAM OBJECTIVES

The objectives of the Weatherization Assistance for Low-Income Persons Program (WAP) are to conserve energy and reduce the impact of rising energy costs on low-income persons, particularly the elderly and handicapped, through the installation of energy-conserving measures in their dwellings. WAP grants include both appropriated funds and Petroleum Violation Escrow funds (PVE). Detailed procedures and compliance requirements for the program are discussed in 10 CFR 440, and should be reviewed for applicability to the period of audit since program requirements and limits change periodically.

II. PROGRAM PROCEDURES

States submit an application and plan to DOE. The submission describes proposed weatherization projects and contains a budget, the number of dwelling units to be weatherized with grant funds, a monitoring plan, and a training and technical assistance plan. Upon approval, the States receive funds from DOE, and can enter into subagreements with local administering agencies having approved plans.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

- 10 CFR 440 states that DOE funds can be used for the following categories of services and materials, provided they meet prescribed installation and quality standards:
  - Caulking and weatherstripping of doors and windows.
  - Furnace efficiency modifications.
  - Clock thermostats.
  - Ceiling, attic, wall, floor, and duct insulation.
  - Water heater insulation.
  - Storm windows and doors.
  - Other weatherization materials identified in program regulations.
- Allowable weatherization program expenditures include:
  - The cost of materials, including delivery charges. (See the following limitations.)
  - Labor costs, including employment of on-site supervisory personnel.
  - Costs to transport weatherization materials, tools, equipment, and work crews to storage or weatherization sites.
  - Incidental repairs needed to make the installation of weatherization materials effective.
  - Maintenance, operation and insurance costs of weatherization vehicles.
  - Personal injury and property damage liability insurance.
  - Allowable administrative expenses. (See the following limitations.)
  - Training and technical assistance.
- Weatherization program costs cannot exceed allowable ceiling amounts per dwelling unit. (Note: these limits change periodically, and on September 30, 1989, stood at an average of $1,600 per dwelling unit weatherized in the State.)
- An average of at least 40 percent of the funds provided in a State shall be spent for weatherization materials.
- Not more than 10 percent of any grant to a State may be used by the grantee and

subgrantees for administrative purposes, except that the State is limited to not more than 5 percent.

- A final inspection must be performed on each dwelling unit before it is reported to DOE as completed.

Suggested Audit Procedures

- Review provisions of the State plan and subagreements with local administering agencies to become familiar with the scope of the weatherization program, funding levels, and operating and administrative arrangements.
- Review the State's procedures for overseeing subgrantee operations and evaluate for adequacy. Determine the status of the State's audits, prior or pending disallowances, and audit resolution. Report internal control weaknesses, such as failure to perform required audits and untimely resolution.
- Sample completed weatherization cases to determine whether a final inspection was made to verify that all required work was performed in accordance with quality standards and the terms and conditions of contracts or subcontracts. Question the costs of unauthorized or substandard work, as well as payments made without a final inspection.
- Determine compliance with the requirement to spend at least 40 percent of available funds on weatherization materials.
- Determine compliance with established cost ceilings per dwelling unit.
- Determine compliance with established ceilings on administrative costs.

B. Eligibility

Compliance Requirements

- A single-family dwelling unit is ineligible for DOE weatherization assistance if it is occupied by a family unit whose combined income exceeds 125 percent of the Office of Management and Budget (OMB)-defined poverty level. This limit does not apply if a family member has received cash assistance payments under the Aid to Families with Dependent Children (AFDC) or Supplemental Security Income for the Aged, Blind, or Disabled (SSI) program during the 12 months preceding the determination of eligibility for weatherization assistance. (10 CFR 440.22(a))
- Special eligibility requirements apply to for buildings containing rental units. (10 CFR 440.22(b)
- Funds cannot be expended for a dwelling unit previously weatherized with grant funds, unless damaged by fire, flood, or act of God. The unit is ineligible for assistance if damage to weatherization materials was reimbursed by insurance. (10 CFR 440.18(e)(2))
- Funds cannot be expended to weatherize a dwelling unit designated for clearance by a Federal, State, or local program within 12 months from the date weatherization would be scheduled for completion. (10 CFR 440.18(e)(1))
- When making eligibility determinations, priority must be given to eligible applicants who are handicapped or elderly. (10 CFR 440.16(b))

Suggested Audit Procedures

- Review the grantee's or subgrantee's eligibility determinations for compliance with program requirements. Determine whether the combined income of all members of the family unit is considered in making eligibility determinations and whether the decisions are based on documentary evidence of income. Question cases where applicants' income exceeds allowable limits, or the eligibility determinations are undocumented, inaccurate, or based on inaccurate or incomplete information.
- Determine whether weatherized units were previously weatherized. Question costs where this was performed contrary to regulations.
- Determine whether units scheduled for clearance were weatherized contrary to regulations.
- Determine whether priority was given to the handicapped and the elderly.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

DOE funds must be used to supplement, not supplant, State and local funds. (10 CFR 440.16(c))

Suggested Audit Procedure

Review patterns of appropriations and expenditures to determine whether the State or local government reduced its contributions by substituting federally appropriated or petroleum violation escrow funds.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

There are no special tests or provisions.

ENERGY CONSERVATION FOR INSTITUTIONAL BUILDINGS

81.052

I. PROGRAM OBJECTIVES

The objective of the Institutional Conservation Program (ICP) is to promote efficient use of energy in public and private nonprofit schools and hospitals, buildings owned by units of local government, and public care institutions.

II. PROGRAM PROCEDURES

Funds are provided to States to conduct preliminary energy audits and energy audits for identifying and encouraging adoption of energy conservation procedures, local governments and public care institutions for technical assistance and analyses, and public and private nonprofit schools and hospitals for technical assistance analyses and energy conservation measures.

Grants include both appropriated funds and PVE funds.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

The cost of an energy audit generally shall not exceed $400 for a building containing up to 30,000 gross square feet; $500 for a building containing 30,000 to 100,000 gross square feet; $600 for a building containing 100,000 or more gross square feet; and for a complex of buildings, the sum of the allowable costs for the first 150,000 square feet and 60 percent of the allowable costs above 150,000 square feet, provided the total cost does not exceed $10,000. (10 CFR 450.46, 455.15(a)(3)

Suggested Audit Procedure

Determine whether disbursements for energy audits are documented with evidence of the square footage for the unit(s) audited and whether costs are within the limits of these criteria. Question unsupported or excessive energy audit costs.

Compliance Requirement

Funds may not be used for buildings whose construction was completed after April 20, 1977. (10 CFR 455.2)

Suggested Audit Procedures

Determine whether disbursements for energy audits are documented with evidence of construction completion dates. Question unsupported costs or those that do not meet the completion date criterion.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

Generally, each State must finance at least 50 percent of allowable program costs. In the following instances, a higher Federal share grant may be allowed:

- DOE may grant up to 100 percent of the cost of energy audits or preliminary energy audits if requested by the Governor and approved by DOE. (10 CFR 455.12)
- DOE may grant up to 100 percent for units of local government, public care institutions, and schools and hospitals in the Virgin Islands, Guam, American Samoa, or the Northern Mariana Islands. (10 CFR 455.81, 455.82)

Suggested Audit Procedures

- Determine the cost-sharing percentages approved by DOE.
- Review financial and related records to ascertain the actual total Federal contribution, including PVE funds.
- Determine the amount and source of funds actually used by the State for its matching contribution. Question any contribution shortfalls.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

There are no special tests or provisions.

Section L. FEDERAL EMERGENCY MANAGEMENT AGENCY

DISASTER ASSISTANCE

83.516

I. PROGRAM OBJECTIVE

The objective of the Disaster Assistance Program is to provide assistance to States, local government, selected nonprofit organizations under the Public Assistance Program and to individuals under the Individual Assistance Program for the alleviation of suffering and hardship resulting from major disasters or emergencies declared by the President.

II. PROGRAM PROCEDURES

Following Presidential declaration of a major disaster or an emergency, the Federal Emergency Management Agency (FEMA) grants for public or individual assistance to States or Indian tribal governments. The State or the Tribe may use the funds to restore its own disaster-damaged projects, to provide subgrants to local governments and selected private nonprofit facilities, and to provide assistance to individuals.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Public Assistance Program

Compliance Requirement

Disaster assistance funds can be expended only on allowable services and at approved rates specified in the approved grant agreement. Disaster assistance funds cannot be used for expenditures funded by Federal program. (44 CFR 206, E, F, H)

Suggested Audit Procedures

- Review approved grant agreement.
- Test expenditure records.
- Determine nature of expenditures and the sources of funding for disaster-related expenditures.

Compliance Requirement

Funds from insurance settlements, salvage, or other sources for specific losses must be deducted by the grantee from its claim. (44 CFR 13.22)

Suggested Audit Procedures

- Review insurance policies, minutes of legislative body meetings, and other sources likely to reveal the existence of insurance claims, salvage payments, and similar receipts.
- Test financial records and determine the manner in which such receipts were processed.
- Obtain a representation letter containing a statement that no insurance recoveries, salvage receipts, or other payments for specific losses were received other than those listed.

Compliance Requirement

Funds approved as an improved project can only be used as a contribution for the construction of larger or improved facilities that restore at least the predisaster capacity of the damaged or destroyed facility. (44 CFR 206.203)

Suggested Audit Procedures

- Review a sample of damage survey reports for damaged or destroyed facilities.
- Ascertain amount approved for improved projects.
- Ascertain costs for new facilities.

Compliance Requirement

Funds approved for an "alternate project" can be used only for alternate projects specifically approved by FEMA. While the grantee or subgrantee have flexibility to propose the type and size of "alternate projects" they wish to construct, FEMA must review such proposed projects to ensure compliance with environmental and other special concerns. (44 CFR 206.203)

Suggested Audit Procedures

- Review a sample of the alternate projects on which the claim was based and compare with the approved alternate projects.
- Ascertain the costs incurred for the alternate projects to ensure that total cost of the projects equal or exceeds the Federal, State, and local share.

Compliance Requirement

As a condition of receiving Federal assistance for restoration of certain facilities, grantees and subgrantees are required to obtain and maintain specified types and extent of insurance. (44 CFR 206.253)

Suggested Audit Procedures

- Review a sample of those projects for which insurance commitments were required.
- Determine whether the type and extent of insurance required was obtained and whether it is being maintained.

Compliance Requirement

Projects must be completed with time limits established under 44 CFR 206.204.

Suggested Audit Procedure

Review a sample of projects to determine whether they were completed within approved time limits.

Individual Assistance Program

Compliance Requirement

The Individual and Family Grant (IFG) program must be administered by the State in accordance with the approved administrative plan. (44 CFR 206.131)

Suggested Audit Procedures

- Review a sample of the grant-award recipient case files to ensure that the award amount and decision was determined using complete and accurate documentation.
- Review accounting records to ensure that there is adequate documentation to support administrative cost claims.

Compliance Requirement

The Crisis Counseling Program must be administered in accordance with the approved program application. (44 CFR 206.171)

Suggested Audit Procedure

Review quarterly and final program reports to ensure administrative and program funds have been expended as outlined in the approved budget.

Compliance Requirement

The Disaster Unemployment Assistance (DUA) program must be administered in accordance with the DUA program agreement entered into by the State and approved by the Secretary of Labor. (44 CFR 206.141)

Suggested Audit Procedures

- Review a sample of case files to verify whether claimant determinations were made in accordance with both State law and Federal regulations.
- Examine case files to ensure that the State included appropriate documentation to support determinations.
- Review funding requests and expenditures to ensure compliance with regulatory procedures.

Temporary Housing Program

Compliance Requirement

State-administered housing programs, and State administration of group mobile-home park development must comply with 44 CFR 206.101.

Suggested Audit Procedures

Review a sample of case files and financial information related to administrative expenditures to ensure adherence to regulations and to ensure that complete and accurate documentation exists.

B. Eligibility

Public Assistance Program: The auditor is not expected to test for eligibility.

Individual Assistance Program: For those programs providing funds directly to the disaster victim, auditors should review files to ensure that applicant eligibility is adequately documented.

C. Matching, Level of Effort, and/or EarmarkingRequirements

Public Assistance Program

Compliance Requiremen

Costs must be on a shared basis as specified in the Federal-State agreement. (Public Law 93–288, 43 USC 5121 *et seq.*, 44 CFR 206.203)

Suggested Audit Procedures

- Review the Federal-State agreement and determine the cost-sharing requirements.
- Review the financial and other records, and determine the amount and nature of the State and local government's share.

Individual Assistance Program

Compliance Requirement

The IFG program is cost shared on a 75 percent Federal and 25 percent State basis. (44 CFR 206.131)

Suggested Audit Procedure

Review the final voucher (SF 270) to ensure that the State contributed its share to the program cost.

Compliance Requirement

In-kind contributions by State and local governments are specified in the approved application for the Crisis Counseling Program. (44 CFR 206.171)

Suggested Audit Procedure

Review the quarterly and final program reports to determine that the cost-sharing requirements in the approved application are followed.

D. Special Reporting Requirements

Individual Assistance Program

Compliance Requirements

The following reports must be submitted to FEMA periodically:

- Request for Advance or Reimbursement (SF 270) for the IFG program and the Crisis Counseling Program; status reports for the IFG program (FEMA Form 76–28).
- Narrative program summary for the Disaster Unemployment Assistance Program. (See DR&R 18, *Individual & Family Grant Program Handbook.*)

Suggested Audit Procedure

See Federal Financial Reports (VI) in the "General Requirements" section of this document.

E. Special Tests and Provisions

Public Assistance Program

Compliance Requirement

All costs of administering public assistance programs at the subgrantee level are covered by a statutorily established percentage, and no costs of administering the program other than that percentage should be included in a subgrantee's claim. At the grantee level, a statutorily established percentage covers all costs of administering the public assistance program except the cost of regular time of employees approved by FEMA. Only this cost above the percentage should be included in the grantee's claim. (44 CFR 206.228)

Suggested Audit Procedure

Review the claim to ensure that costs covered by the statutorily established administrative expenses percentage are not claimed under the public assistance program even though such costs would normally be authorized under Office of Management and Budget (OMB) Circular A–87 for administration of a grant.

Section M. DEPARTMENT OF EDUCATION

ADULT EDUCATION—STATE-ADMINISTERED BASIC GRANT PROGRAM

84.002

I. PROGRAM OBJECTIVES

The objectives of the Adult Education—State-Administered Basic Grant Program are to encourage, expand, and improve educational opportunities for adults by assisting States in conducting adult education programs, services, and activities in accordance with the Adult Education Act (the Act) as set forth in Public Law 100–297. (20 U.S.C. 1201 *et seq.*)

II. PROGRAM PROCEDURES

Funds are provided to States in accordance with a statutory formula, on submission of a State plan developed every 4 years. State educational agencies (SEAs) may administer programs directly or contract with eligible recipients or make subgrants to them.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

A State and subgrantees may use funds for the following:

- Educational programs, services, and activities below the college level for individuals who are at least 16 or who are beyond the age of compulsory school attendance under State law.
- State advisory councils.
- State and local administrative costs. (34 Code of Federal Regulations (CFR) 425.4, 426.10)

Suggested Audit Procedures *(States and Eligible Recipients)*

- Review controls designed to ensure that expenditures are made only for allowable services.
- Test expenditure and related records to determine if expenditures were made only for allowable services.

B. Eligibility

Compliance Requirements

SEA receives funds by submitting necessary assurances and a 4-year State plan. Local educational agencies (LEAs) and public or private non-profit agencies, organizations, and institutions are eligible to apply to the State for funds. Applications may be received on behalf of a consortium that includes one of the foregoing entities and a for-profit agency, organization, or institution that can make a significant contribution to attaining the objectives of the Act.

Applicants other than LEAs must consult with the applicable LEA, give the LEA an opportunity to comment on the application, and attach to the application the LEA's comments and the applicant's responses to those comments.

Suggested Audit Procedure *(States)*

Review a sample of awards made by the State to determine if the awards were made in accordance with the criteria in the State plan.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

Under the matching requirements of the program, the Federal share of expenditures made under a State plan may not exceed 90 percent for programs carried out from fiscal year 1988 and fiscal year 1989 appropriations; 85 percent from fiscal year 1990 appropriations; 80 percent for programs from 1991 appropriations; and 75 percent for programs from 1992 and subsequent-year appropriations.

To be eligible for Federal funds, a State shall expend for adult education, from non-Federal sources in the second preceding year, an amount not less than the fiscal effort of the State in the third preceding year. Under Section 361(b) of the Act, the effort may be maintained on a per-student expenditure basis or on a total expenditure basis.

SEA may not use more than 20 percent of the funds granted to the State under the Act for programs of equivalency for a certificate of graduation from a secondary school.

SEA shall use not less than 10 percent of the funds granted to the State under the Act for corrections education and education for other institutionalized adults.

SEA shall use not less than 10 percent of the funds granted to the State under the Act for special experimental demonstration projects and teacher training projects under Section 353 of the Act.

For programs conducted from appropriations for fiscal years 1989 and 1990, SEA may use for State administration whatever percent of its grant is necessary and reasonable. For programs conducted from appropriations for 1991 and any subsequent years, SEA may use no more than 5 percent of its grant or $50,000, whichever is greater, for necessary and reasonable State administrative costs.

Local administrative costs may not exceed 5 percent of the cost of a local project unless SEA has determined, after negotiation with the local applicant, that a higher percentage is necessary and reasonable.

Suggested Audit Procedure *(States)*

Determine whether the State met all the percentage, matching, maintenance of effort, and administrative cost requirements described previously.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirements

A grantee or subgrantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure. In State-administered programs, grantees and subgrantees must obligate funds by the end of the fiscal year succeeding the fiscal year for which those funds are appropriated. (34 CFR 76.703–76.707)

- The grantee and subgrantee shall maintain documentation and demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occurred outside of the period of availability, the funds are not time obligated and they shall be returned.
- If a grantee or subgrantee uses a different accounting system from one year to the next, it shall demonstrate that the system was not improperly changed to avoid lapsing funds.
- A grantee may not reallocate grant funds from one subgrantee to another subgrantee after the period of availability.
- A grantee or subgrantee may not make accounting adjustments after the period of availability in an attempt to offset audit disallowances. The disallowed costs must be refunded.

Suggested Audit Procedures *(States and Eligible Recipients)*

- Examine transactions recorded after the end of the period availability and determine if the underlying obligation was recorded in the proper period.
- Test some transactions that were recorded within the period of availability to determine if the underlying obligations actually occurred within the period of availability.
- Examine the audited entity's reallocations of Federal funds to determine whether they occurred within the period of availability.

BILINGUAL EDUCATION

84.003

I. PROGRAM OBJECTIVES

The objectives of the basic bilingual education programs of Title VII of the Elementary and Secondary Education Act (ESEA) of 1965, as amended (Title VII), are to assist in building local capacity to conduct authorized programs of bilingual education in elementary and secondary schools designed to enable children with limited English proficiency (LEP) to achieve competence in the English language and to meet grade-promotion and graduation requirements.

II. PROGRAM PROCEDURES

Following approval of applications, the Secretary of Education awards grants to LEAs and to institutions of higher education (IHEs) applying jointly with LEAs.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

Funds for basic projects may be expended only for the types of services specified in implementing regulations and in the grant-award documents. These services include classroom instructions, training of parents and other project participants, planning, and curriculum development. (34 CFR 501 *et seq.*)

There are specific statutory and regulatory requirements for each type of program authorized under the Act:

- Programs of Transitional Bilingual Education (TBE) require instruction in English and in the non-English, native language of LEP participants to the extent necessary to allow a child to achieve competence in English and meet grade-promotion and graduation requirements. (20 U.S.C. 3283) (34 CFR 500.4(b))
- Programs of Developmental Bilingual Education (DBE) require dual-language instruction in English and a second language. DBE programs are designed to help children achieve competence in English and a second language while mastering subject matter skills and meeting grade-promotion requirements. (20 U.S.C 3283, 34 CFR 500.4(b))
- Special Alternatives Instructional (SAI) Programs, are, by definition, not TBE or DBE programs. They feature specially designed curricula to provide English-language instruction and special instructional services to allow a child to achieve competence in English and meet grade-promotion requirements. (34 CFR 500.4(b))

Suggested Audit Procedures

- Determine which of the previously described types of programs is being conducted and whether the grantee is meeting the appropriate dual-language instructional requirements of the grant.
- Test expenditure and related records to determine if expenditures were made only for allowable services.

B. Eligibility

Compliance Requirements

Before submitting a grant application, each applicant is required to conduct an assessment of the children in the schools and grades to be served by the project to identify children of limited English proficiency.

To qualify as LEP, children must meet two test requirements. First, children must come from one of three background categories identified in the statute and regulations (section 500.4 of the regulations and section 3283 of the Act) (1) individuals who were not born in the United

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from environments where a language other than English is dominant; and (3) individuals who are American Indian or Alaskan natives and who come from environments where a language other than English has had a significant impact on their level of English-language proficiency.

Second, children must have sufficient difficulty speaking, understanding, reading, or writing English that denies them the opportunity to learn successfully in classrooms in which the language of instruction is English. If a child meets only one requirement of the test, the child is not eligible as LEP under the Act and regulations. The native, or non-English, language used in the project must be the same language that was the basis for the child's being identified as LEP. In TBE programs, at least 60 percent of the children participating must be LEP. (20 U.S.C. 3283)

Students with LEP may be enrolled in a TBE or SAI program for no more than 3 years unless specific evaluation requirements of each student's overall academic needs are satisfied. (34 CFR 501.42)[1]

The 3-year limitation on student enrollment applies to only TBE and SAI programs. Specific evaluation requirements for extending a student's enrollment involve a comprehensive evaluation. This process determines whether it is LEP that is impeding the academic progress of the student in meeting grade promotion and graduation standards and in the case of a handicapped child, attainment of the objectives in the child's individualized education program.

Suggested Audit Procedures

- Review the control system used to ensure that only qualified children with LEP are served.
- Select a sample of children receiving benefits and determine if they were eligible in accordance with prescribed procedures.
- Determine whether the 60-percent requirement was met for TBE programs.
- Ascertain whether the evaluation procedures have been satisfied for any student who has participated in the program for more than 3 years.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

Federal funds cannot be used to supplant State or local funds that would have been expended for special programs for children with LEP. (34 CFR 501.20(b)(2))

These requirements do not preclude an LEA from using funds under Title VII for activities carried out under a court order of the United States or any State regarding services to be provided to children with LEP, or to carry out a plan approved by the Secretary as adequate under Title VI of the Civil Rights Act of 1964 with respect to services to be provided for children with LEP. (34 CFR 501.20 (b) (2))

Suggested Audit Procedures

- Evaluate the adequacy of the LEA's system to ensure that Federal funds supplement and do not supplant State and local funds.
- Test the system to determine whether the grantee used Title VII funds to provide children with LEP with services that either supplemented or were additional to services that would have been provided with State and local funds in the absence of those Title VII funds.

D. Special Reporting Requirements

There are no special reporting requirements.

Compliance Requirements[2]

E. Special Tests and Provisions

Compliance Requirement

An applicant shall establish an advisory council, of which a majority must be parents and other representatives of the children to be served in the project, to assist in the development of the application. In carrying out a

[1]The Hawkins-Stafford Act created a 3-year enrollment limitation for TBE and SAI programs.

[2]Forms are approved conditionally with the understanding that changes may have to be made in the definitions of terms used in the forms at the completion of an Office of Management and Budget (OMB) cash management study.

project, the applicant shall provide for continuing consultation with and participation by a parent advisory committee. An applicant shall also consult with the appropriate private school officials to take into account the needs of children with LEP enrolled in nonprofit private elementary and secondary schools in the area to be served. (34 CFR 501.21, 501.22)

Suggested Audit Procedure

Determine if consultation requirements regarding private schools and parent advisory committees have been satisfied by reviewing documentation, such as correspondence, meeting notices, and meeting minutes.

Compliance Requirement

A grantee or subgrantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure as set forth in the grant award documents.

- The grantee and subgrantee shall maintain documentation to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occur outside of the period of availability, the funds are not time obligated and they shall be returned.

***Suggested Audit Procedures** (LEA and SEA)*

- Examine transactions recorded after the end of the period of availability, and determine if the underlying obligation was recorded in the proper period.
- Test some transactions that were recorded within the period of availability to determine if the underlying obligations actually occurred within the period of availability.

EDUCATIONALLY DEPRIVED CHILDREN—LOCAL EDUCATIONAL AGENCIES

(Chapter 1 of ESEA)

84.010[3]

I. PROGRAM OBJECTIVES

The objective of Part A of Chapter 1 of Title I of ESEA of 1965, as amended, is to provide funds through SEAs to LEAs to meet the special educational needs of educationally deprived children in school attendance areas with high concentrations of children from low-income families. The objective is to help those children succeed in the regular program of LEA, attain grade level proficiency, and improve achievement in basic and more advanced skills.

II. PROGRAM PROCEDURES

Funds are provided to each SEA for allocation to LEAs based on a statutory formula. Funds are then granted to LEAs that have currently approved project applications on file with SEA that describe the projects to be undertaken with the Chapter 1 funds.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to the Federal requirements, each SEA has the authority, in accordance with State law, to issue rules consistent with Federal statutes and regulations. These rules should be reviewed before beginning the audit.

A. Types of Services Allowed or Unallowed

Compliance Requirement

An SEA may grant Chapter 1 funds only to an LEA that submits an application for a project to be conducted during a period of not more than 3 fiscal years. SEA shall approve an LEA's application for Chapter 1 funds if it meets the requirements in Chapter 1 Program in Local Educational Agencies, Final Regulations. (34 CFR 200.20, 200.21)

Suggested Audit Procedures (SEA)

- Review the policies and procedures used by SEA for the review of LEA applications for Chapter 1 funds.
- Test a sample of LEA applications to determine if LEA Chapter 1 applications include the information and assurances contained in the statute and regulations and were reviewed by SEA.

Compliance Requirement

An LEA may use Chapter 1 funds only for programs and projects that are designed and implemented to meet the special educational needs of educationally deprived children. (34 CFR 200.4, 200.40)

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[3]The provisions in this section are contained in Chapter 1 of Title I of ESEA of 1965, enacted as part of the Augustus F. Hawkins-Robert T. Stafford Elementary and Secondary School Improvement Amendments of 1988. Effective July 1, 1988, these provisions superseded those in Chapter 1 of the Education Consolidation and Improvement Act of 1981 (ECIA). During the transition year (1988-89), however, SEAs and LEAs may comply with either the provisions in Chapter 1 of the ESEA or Chapter 1 of the ECIA. If auditors are conducting an audit of the 1988-89 transition year and they need further information, they should contact the appropriate Regional Inspector General for Audit, U.S. Department of Education.

Suggested Audit Procedures (LEA)

- Identify the activities in the LEA approved project application.
- Test expenditure and related records to determine whether Chapter 1 funds were used only for allowable services.

B. Eligibility

Compliance Requirement

An LEA Chapter 1 project must be based on an annual assessment of educational needs that (1) identifies educationally deprived children in all eligible areas; (2) identifies the general instructional areas on which the program will focus; (3) selects those educationally deprived children who have the greatest need for special assistance, as identified on the educationally related objective criteria established by the LEA that are uniformly applied to particular grade levels throughout the LEA; and (4) determines the special educational needs and library resource needs of participating children with specificity to ensure concentration on such needs. (Sec. 1014(b) 34 CFR 200.31)

With certain exceptions, an LEA must use funds only for children whose educational attainment is below the level that is appropriate for children of their age (educationally deprived children). An LEA must conduct Chapter 1 projects in school attendance areas having high concentrations of children from low-income families. If funds are insufficient to provide programs in all eligible areas, the LEA must annually rank its areas from highest to lowest within each grade-span grouping or for the entire LEA according to the degree of concentration of children from low-income families. An LEA may carry out a project in an eligible school attendance area only if it also carries out projects in all eligible areas that are ranked higher. (34 CFR 200.30, 200.31)

Suggested Audit Procedures (LEA)

- Review the annual assessment of educational needs for completeness as it relates to the four areas stated in the Compliance Requirement.
- Review LEA procedures used for determining school attendance areas having high concentrations of children from low-income families and evaluate for adequacy.
- Identify the source of the demographic information and consider its reliability.
- Identify the schools in which Chapter 1 projects are being conducted, and determine whether those schools serve attendance areas having high concentrations of low-income families selected in accordance with the implementing regulations.
- On a sample test basis, determine that the children served are educationally deprived.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

The combined fiscal effort per student or the aggregate expenditures of an LEA from State and local funds for free public education for the preceding year must be at least 90 percent of the combined fiscal effort per student or aggregate expenditures for the second preceding year, unless specifically waived by SEA. In determining LEA compliance with this requirement, SEA shall consider LEA expenditures from State and local funds for free public education, which include expenditures for administration, instruction, attendance, health services, pupil transportation, plant operation and maintenance, fixed charges, and net expenditures to cover deficits for food services and student body activities. SEA shall not consider any expenditures for community services, capital outlay, or debt service. In addition, SEA shall not consider any expenditures made from funds provided under Chapter 1 and Chapter 2 of Title I of ESEA or Chapter 1 and Chapter 2 of ECIA.

SEA may waive this requirement, for 1 fiscal year only, if SEA determines that a waiver would be equitable due to exceptional or uncontrollable circumstances, such as a natural disaster or a precipitous and unforeseen decline in the financial resources of LEA. SEA may not consider tax initiatives or referenda to be exceptional or uncontrollable circumstances. (34 CFR 200.41, 200.42)

Suggested Audit Procedures (SEA)

- Determine whether SEA procedures for reviewing LEA compliance ensure that the types of expenditures included in LEA calculations are appropriate, that they are consistent from year to year, and that the level of effort is maintained.

- Review the waivers granted by SEA and determine whether the basis for waiving was for authorized purposes.

***Suggested Audit Procedures** (LEA)*

- Review the second and first preceding years' financial and related records of LEA, determine total expenditures, and if appropriate review the second and first preceding years' pupil records of LEA and determine per-pupil expenditures.
- Determine if effort was maintained.

Compliance Requirements

An LEA may receive Chapter 1 funds only if State and local funds will be used in project areas to provide services that, taken as a whole, are at least comparable with services that LEA is providing in areas not receiving Chapter 1 funds. Determinations may be made on a districtwide or grade-span basis. If all school attendance areas are designated as Chapter 1 project areas, an LEA may receive Chapter 1 funds only if LEA uses State and local funds to provide services that, taken as a whole, are substantially comparable in each project area. An LEA with not more than one building for each grade span is not required to meet the comparability requirements.

LEA may exclude from determinations of compliance with this requirement (1) State and local funds expended for carrying out special programs to meet the educational needs of educationally deprived children, including compensatory education, if the Secretary of Education or SEA, as appropriate, determines in advance that the program meets the requirements in section 1018(d)(1)(B), or (2) State and local funds expended for State phase-in programs if the Secretary of Education determines in advance that the program meets the requirements in section 1018(d)(2)(B). In addition, LEA may exclude State and local funds expended for bilingual education for children with LEP or for special education for handicapped children.

Each LEA must develop procedures for complying with the comparability requirements and must maintain records documenting compliance.

Each LEA that is not in compliance with the comparability requirements shall be subject to withholding or repayment of funds only to the amount or percentage by which LEA has failed to comply. SEA shall monitor each LEA's compliance with the comparability requirements. (34 CFR 200.43, 200.45)

***Suggested Audit Procedures** (SEA)*

Ascertain whether SEA is monitoring each LEA's compliance with the comparability requirements.

Compliance Requirement

An LEA may use Chapter 1 funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of Chapter 1 funds, be made available from non-Federal sources for the education of pupils participating in Chapter 1 projects. LEA may not use Chapter 1 funds to supplant funds from non-Federal sources.

LEA may exclude from determinations of compliance with this requirement State and local funds expended for carrying out special programs to meet the educational needs of educationally deprived children, including compensatory education, if the Secretary of Education or SEA (as appropriate) determines in advance that the program meets the requirements of the statute and implementing regulations. (34 CFR 200.44, 200.45)

***Suggested Audit Procedures** (LEA)*

- Evaluate the adequacy of the system to ensure that Federal funds are used to supplement, not supplant, non-Federal funds.
- Test the system to determine whether the grantee used Chapter 1 funds to supplant non-Federal funds.

D. Special Reporting Requirements

Each year, an SEA must submit its average State per pupil expenditure (SPPE) data to the National Center for Education Statistics. SPPE data are reported on the Common Core of Data Survey, Revenues and Expenditures for Public Elementary and Secondary Education (SPPE survey). SPPE data comprise the annual current State expenditures for free public education, less certain designated exclusions, divided by the State's average daily attendance ("Current expenditures" is defined in Section 1471 of Chapter 1 of Title I of ESEA). SPPE data are used for the allocation of Chapter 1 funds.

Current expenditures to be included are those for free public education, including administra-

tion, instruction, attendance, health services, pupil transportation services, operation and maintenance of plant, and fixed charges and net expenditures to cover deficits for food services and student body activities. Current expenditures to be excluded are those for community services, capital outlay, debt service, and expenditures from Chapter 1 and Chapter 2 funds. (20 U.S.C. 2711, 2891(b))

***Suggested Audit Procedures** (SEA)*

- Review the most recent annual SPPE survey, compare it with supporting documentation maintained by SEA, and determine whether they are consistent.
- Review the SPPE survey to determine whether (1) if only appropriate current expenditures are included, (2) expenditures are double counted, and (3) the average daily attendance reported was in accordance with State law.

E. Special Tests and Provisions

Compliance Requirement

An LEA may not carry over more than (1) 25 percent of basic and concentration grant funds appropriated for fiscal year 1989 and (2) 15 percent of basic and concentration grant funds appropriated for fiscal year 1990 and each subsequent fiscal year. The percentage limitations do not apply to an LEA that receives less than $50,000 for any fiscal year.

SEA may grant a one-time waiver of the percentage limitation if SEA determines that the request is reasonable and necessary. SEA may also grant a waiver in any fiscal year in which supplemental appropriations for Chapter 1 become available for obligation. (34 CFR 200.46)

***Suggested Audit Procedure** (LEA)*

Determine whether LEA has carried over no more than the percentages specified in the law.

Compliance Requirement

SEA shall reallocate excess funds to other eligible LEAs "with the greatest need, for the purpose of, where appropriate, redressing inequities inherent in, or mitigating hardships caused by application [of the allocation formula in section 1005(a) of Chapter 1], as a result of such factors as population shifts and changing economic circumstances."

SEA shall determine LEA eligibility to receive additional funds on the basis of data that demonstrate inequities caused by the formula. SEA shall develop procedures for reallocating excess funds. The procedures should include the following:

- Criteria that SEA applies to determine whether an LEA has excess funds.
- Use of appropriate data to determine which LEAs are eligible to receive reallocated funds to redress inequities in the allocation formula.
- Criteria that SEA applies to ensure that, of LEAs eligible to receive reallocated funds, the funds are reallocated to LEAs with the greatest need for additional funds to meet the needs of eligible children. SEA shall develop procedures for reallocating excess funds. (34 CFR 200.26)

***Suggested Audit Procedure** (SEA)*

Review SEA's procedures for reallocating excess Chapter 1 funds to determine whether those procedures comply with the compliance requirement for reallocation.

Compliance Requirement

An LEA shall develop and implement programs, activities, and procedures for the involvement of parents in the Chapter 1 program that meet the goals and requirements specified in section 1016 of Chapter 1. (34 CFR 200.34)

***Suggested Audit Procedures** (LEA)*

- Determine whether LEA has, in consultation with parents of participating children, developed programs, activities, and procedures to involve parents and whether LEA has written policies concerning parent involvement.
- Determine whether LEA is implementing its policies and procedures.

Compliance Requirement

An LEA must evaluate the effectiveness of its Chapter 1 program, in accordance with national evaluation standards required by section 1435 of Chapter 1, at least once every 3 years (using an objective measurement of individual achievement in basic and more advanced skills, aggregated for LEA as a whole). The results of such evaluations must be submitted to SEA at least once every 3-year application cycle. LEA also must determine whether improved performance

is sustained over more than 1 year. (34 CFR 200.35, 200.80–200.84, 200.88, 200.89)

***Suggested Audit Procedure** (LEA)*

Determine whether LEA has conducted the required Chapter 1 evaluations.

Compliance Requirement

An SEA must conduct an evaluation of Chapter 1 programs in the State at least once every 2 years. (34 CFR 200.35, 200.85–200.89)

***Suggested Audit Procedures** (SEA)*

Determine whether SEA has conducted the required evaluation of Chapter 1 programs in the State.

Compliance Requirements

For children enrolled in private elementary and secondary schools who are educationally deprived and who reside in Chapter 1 project areas, an LEA must provide Chapter 1 services and arrangements that are equitable to those provided for children enrolled in public schools. Services are equitable if LEA:

1. Assesses, addresses, and evaluates the specific needs and educational progress of eligible private schoolchildren on the same basis as public schoolchildren.
2. Provides, in the aggregate, approximately the same amount of instructional time and materials for each private schoolchild as it provides for each public schoolchild.
3. Expends equal amounts on services for public and private schoolchildren in accordance with section 1017(a).
4. Provides private schoolchildren with an opportunity to participate that is equitable to the opportunity provided to public schoolchildren.

If LEA provision of services and arrangements for private schoolchildren is prohibited by State law or if the Secretary of Education determines that LEA substantially failed to provide for the participation on an equitable basis of eligible private schoolchildren, the Secretary of Education invokes a bypass to have the services provided directly. (34 CFR 200.50–55, 200.60)

***Suggested Audit Procedures** (LEA)*

- Review procedures for determining numbers and needs of educationally deprived children in private schools, and evaluate for adequacy.
- Ascertain the Chapter 1 services that LEA provided to private schoolchildren, and determine whether LEA has provided the services on an equitable basis when compared with the services provided to public schoolchildren.

Compliance Requirement

An LEA may use Chapter 1 funds for a schoolwide project in accordance with an acceptable plan approved by SEA if in the first year of a 3-year period, not less than 75 percent of the children in the attendance area of the school or 75 percent of the children enrolled in the school are from low-income families. LEA may carry out a schoolwide project to upgrade the entire educational program in that school if the requirements in section 1015(b)–(e) are met. (34 CFR 200.36)

***Suggested Audit Procedures** (LEA)*

Determine if LEA planned a schoolwide project. If so, perform the following procedures.

- Determine whether the school met the eligibility requirements in the first year of the 3-year period.
- Test to determine if LEA is implementing the respective plans.

Compliance Requirement

A grantee and subgrantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure. In State-administered programs, grantees and subgrantees must obligate funds by the end of the fiscal year succeeding the fiscal year for which those funds are appropriated. (34 CFR 76.704–707)

- The grantee and subgrantee shall maintain documentation to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occurred outside of the period of availability, the funds are not time obligated and they shall be returned.
- If a grantee or subgrantee uses a different accounting system from one year to the next, it shall demonstrate that the system was not improperly changed to avoid lapsing funds.
- A grantee may not reallocate grant funds from one subgrantee to another subgrantee after the period of availability.

- A grantee or subgrantee may not make accounting adjustments after the period of availability to offset audit disallowances. The disallowed costs must be refunded.

Suggested Audit Procedures *(LEA and SEA)*

- Examine transactions recorded after the end of the period of availability to determine if the underlying obligation was recorded in the proper period.
- Test some transactions that were recorded within the period of availability to determine if the underlying obligations occurred within the period of availability.
- Examine the audited entity's reallocations of Federal funds to determine whether they occurred within the period of availability.

MIGRANT EDUCATION
(Basic State Formula Grant Program)
84.011

I. PROGRAM OBJECTIVES

The objectives of the Migrant Education Basic State Formula Grant Program are to (1) establish or improve programs designed to meet the special educational needs of migratory children of migratory agricultural workers or migratory fishers, and (2) enable SEAs to coordinate their State migrant programs and local projects with similar programs and projects in other States, including the transfer of school records and other information about migratory children.

II. PROGRAM PROCEDURES

Funds are allocated to a SEA to carry out its approved State plan for providing migrant education program services and activities (1) directly, (2) through subgrants to LEAs, or (3) by special arrangements and contracts with other public or private nonprofit private agencies (operating agencies). Because a SEA may choose to provide program services directly or through a LEA or other operating agencies, some of the suggested audit procedures will apply for a SEA or LEA, depending on which agency provides the services and where the records are maintained.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

A SEA may use or distribute funds only to meet the special educational needs of migratory children in projects administered in accordance with the approved State plan with priority given to serving currently migrant children. Funds may be used by a LEA or other operating agency only in accordance with the approved State plan and only for those services or activities in its project application. The amount of funds that SEA subgrants must be based on criteria that include the number of currently and formerly migrant children to be served and the cost of programs designed to serve their needs. (34 CFR 201.10-201.11, 201.25, and 201.31)

Suggested Audit Procedures (SEA)

- Review the approved State plan, including annual updates, as appropriate.
- Review the State's process for approving subgrants to a LEA or other operating agency.
- Review records that indicate how SEA expended or distributed program funds, and compare those expenditures with the State plan and approved subgrant applications.

Suggested Audit Procedure (LEA)

Test expenditure and related records to determine if expenditures were made only for those services or activities in the project application.

Compliance Requirements

The State receives a supplemental 1-percent grant to defray the allowable administrative costs for all Chapter 1 programs. In addition, a SEA may use grant funds to pay the costs of necessary administrative functions that are unique to the State's Chapter 1 migrant education program or are the same or similar to the functions performed by LEAs under 34 CFR 200.4 and 200.88. Those unique functions include, but are not limited to, the following:

(1) Identifying and recruiting eligible migratory children statewide.

(2) Coordinating the State migrant education program and its local projects with other State programs and local projects.

(3) Coordinating project level activities with other public and private agencies.

(4) Implementing the migrant student record transfer system.

(5) Processing reports that are submitted by the operating agencies to SEA.

(6) Maintaining inventories of property acquired with Migrant Education Program funds.

(7) Negotiating awarding of contracts.

(8) Evaluating activities of the State migrant education program, other than the design of evaluation report forms and final preparation of SEA's evaluation report to the Secretary of Education.

Suggested Audit Procedure

Test SEA expenditure and related records to determine whether expenditures were made only for allowable administrative services and charged to the proper accounts.

B. Eligibility

Compliance Requirements

Services are limited to concentrations of currently or formerly migratory children (age 3 through 21 years) with special educational needs who have not graduated from high school and for whom SEA has documented the eligibility on a certificate of eligibility.

A currently migratory child is one whose parent or guardian is a migratory agricultural worker or migratory fisher and who has moved within the past 12 months from one school district to another so that the child, the child's guardian, or a member of the child's immediate family obtained temporary or seasonal employment in an agricultural or fishing activity. A formerly migratory child is one who was eligible to be counted and served as a currently migratory child and whose parent or guardian consents to having the child considered as migratory.

SEA is responsible for ensuring that no child who is found to be ineligible for the Migrant Education Program is counted as migratory. However, SEA is not responsible for auditing its determination for correctness within a 5-percent error rate. (34 CFR 201.3, 201.30)

Suggested Audit Procedures *(SEA Directly Operated Programs or LEA)*

- Review procedures for determining eligibility, and ensure the correctness of eligibility information recorded on the Certificate of Elibibility (COE).
- Test COE and other records to determine if procedures are followed and errors are within the 5-percent error rate.

C. Matching, Level of Effort, and/or Earmarking Requirement

Compliance Requirements

The combined fiscal effort per student or the aggregate expenditures of a LEA from State and local funds for free public education for the preceding year must be at least 90 percent of the combined fiscal effort per student or aggregate expenditures for the second preceding year, unless specifically waived by SEA. In determining a LEA's compliance with this requirement, SEA shall consider LEA expenditures from State and local funds for free public education, which include expenditures for administration, instruction, attendance, health services, pupil transportation, plant operation and maintenance, fixed charges, and net expenditures to cover deficits for food services and student body activities. SEA shall not consider any expenditures for community services, capital outlay, or debt service. In addition, SEA shall not consider any expenditures made from funds provided under Chapter 1 and Chapter 2 of Title I of ESEA or Chapter 1 and Chapter 2 of ECIA. SEA may waive this requirement, for 1 fiscal year only, if SEA determines that a waiver would be equitable due to exceptional or unforeseen circumstances, such as a natural disaster or a precipitous decline in the financial resources of LEA. (34 CFR 201.41–42)

Suggested Audit Procedures *(SEA)*

- Evaluate SEA's procedures for determining LEA compliance with the maintenance of effort requirement.
- Review the waivers granted by SEA and determine whether the waivers were granted for exceptional and unforeseen circumstances.

Suggested Audit Procedures *(LEA)*

Review the second and first preceding years' financial and related records of LEAs and

determine whether compliance had been maintained on an aggregate or per-pupil basis.

Compliance Requirements

A LEA or SEA may use Chapter 1 funds only to supplement and to the extent practical, increase the level of funds that would, in the absence of Chapter 1 funds, be made available from non-Federal sources for the education of pupils participating in Chapter 1 projects. A LEA must also maintain policies that will ensure comparability of service among migrant and nonmigrant children.

LEA may not use Chapter 1 funds to supplant funds from non-Federal sources.

For purposes of determining compliance with the requirement of Section 1018 of Chapter 1, LEA may exclude State and local funds expended for carrying out special programs that the Secretary of Education or SEA, as appropriate, determines in advance to meet the educational needs of educationally deprived children. (34 CFR 201.43–44)

Suggested Audit Procedures *(SEA Directly Operated Programs or LEA)*

- Review, evaluate, and test SEA or LEA system, and determine whether Chapter 1 funds supplement and do not supplant non-Federal funds.
- Determine if LEA has established and maintained required personnel practices to ensure comparability of services among migrant and nonmigrant children.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

A SEA and its operating agencies receiving Chapter 1 migrant education program funds shall design and improve their Chapter 1 migrant education program and projects on an annual assessment of educational needs that, among other things, (1) identifies needs of all significant concentrations of migratory children expected to reside in the area served by the project, (2) requires selection of those currently migratory children (preschool and school age) in greatest need before selection of formerly migratory children, and (3) determines the educational needs of participating children with sufficient specificity to ensure concentration on these needs. (34 CFR 201.31, 201.32, 201.36)

Suggested Audit Procedures *(SEA)*

- Review SEA identification and recruitment process, and ensure that all significant concentrations of currently migratory children are identified.
- Review SEA prescribed process for selecting children to be served, and determine whether currently migratory children (both preschool and school age) are selected for services before formerly migratory children.

Suggested Audit Procedures *(LEA)*

Review LEA project to ascertain whether currently migratory children with special educational needs (preschool and school age) are selected and served on a priority basis before formerly migratory children.

Compliance Requirements

A grantee and subgrantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure. In State-administered programs, grantees and subgrantees must obligate funds by the end of the fiscal year succeeding the fiscal year for which those funds are appropriated. (34 CFR 76.304–707)

- The grantee and subgrantee shall maintain documentation to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occurred outside of the period of availability, the funds are not time obligated and they shall be returned.
- If a grantee or subgrantee uses a different accounting system from one year to the next, it shall demonstrate that the system was not improperly changed to avoid lapsing funds.
- A grantee may not reallocate grant funds from one subgrantee to another subgrantee after the period of availability.
- A grantee or subgrantee may not make accounting adjustments after the period of availability to offset audit disallowances. The disallowed costs must be refunded.

***Suggested Audit Procedures** (LEA and SEA)*

- Examine transactions recorded after the end of the period of availability and determine if the underlying obligation was recorded in the proper period.
- Test some transactions that were recorded within the period of availability and determine if the underlying obligations occurred within the period of availability.
- Examine the audited entity's reallocations of Federal funds to determine whether they occurred within the period of availability.

HANDICAPPED—STATE GRANTS
(Part B, Education of the Handicapped Act)
84.027

I. PROGRAM OBJECTIVES

The objective of the Assistance to States for the Education of Handicapped Children Program is to assist States in providing free, appropriate public education to all handicapped children.

II. PROGRAM PROCEDURES

Grants are made to States with an acceptable 3-year plan, based on a certified count of handicapped children, age 3 through 21 years, receiving special education and related services. SEA, in turn, funds LEAs that submit applications to SEA for approval.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

A State may expend Federal funds only for the administration of the State plan, which includes planning at the State level; approval, supervision, monitoring, and evaluating the effectiveness of local programs and projects for the education of handicapped children; technical assistance to LEAs; leadership services for program supervision and management of special education activities for handicapped children; other State leadership activities and consultative services; and other direct and support services. (See the following discussion for earmarking limitations.) (34 CFR 300.370, 300.621)

A LEA may use Federal funds only for the excess costs of providing special education and related services to handicapped children. Special education includes specially designed instruction, at no cost to the parent, to meet the unique needs of a handicapped child, including classroom instruction, instruction in hospitals and institutions, instruction in physical education, home instruction, speech pathology, and vocational education. Related services include transportation and such other supportive services as are required to assist a handicapped child to benefit from special education. These definitions are further refined in the regulations. (34 CFR 300.13, 300.14, 300.183, 300.184)

Suggested Audit Procedure *(SEA and LEA)*

Test expenditure and related records to determine if Federal funds were used for allowable services.

B. Eligibility

Compliance Requirement

Only children who are determined to be mentally retarded, hearing impaired, deaf, speech impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired, other health impaired, special learning disabled, deaf-blind, or multihandicapped, and, because of these impairments, who need special education and related services, are eligible for participation in this program. (34 CFR 300.5(a), 300.530–543, 300.750–754)

Suggested Audit Procedures *(LEA)*

- Review and evaluate procedures for providing an accurate count of eligible participants.
- Determine whether Education of the Handicapped Part B (EHA–B) funds were used to pay for services to children who are ineligible to participate in the program.
- Determine whether EHA–B funds were used to pay for services to children who are ineligible to participate in the program. If

EHA-B funds were used for such children, ascertain the amount of those funds so used.

- Review procedures for determining participant eligibility and ascertain if they conform to the preceding criteria.
- Select an appropriate sample of pupil records and determine whether children receiving services were eligible and were included in the appropriate category and age group.

Compliance Requirement

A State's award of EHA–B funds is based on the number of handicapped children, age 3 to 21 years, in that State who are receiving special education and related services. On February 1 of each year, a State is required to report to the Secretary of Education the number of such children receiving special education and related services on the prior December 1. (34 CFR 300.701, 300.751)

***Suggested Audit Procedures** (SEA)*

- Identify the children included by the State in its December 1 count.
- Ascertain whether the children included in that count were handicapped and receiving special education and related services on December 1.
- If children ineligible for inclusion in that count are identified, ascertain the amount of EHA–B funds the State received for those ineligible children.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

A State may use up to 25 percent of its Federal funds received under this program for allowable State administrative costs and for direct and support services. Of this amount, no more than 5 percent of the total funds received or $350,000, whichever is greater, can be used for administrative costs. (34 CFR 300.370, 300.620, 300.706)

A State shall distribute not less than 75 percent of the Federal funds to LEAs based on the number of handicapped children being served by each LEA. (34 CFR 300.706)

***Suggested Audit Procedures** (SEA)*

- Review financial records, and determine the amounts expended for administrative costs, and direct and support services and the amount distributed to LEAs to determine compliance with these requirements.
- Review supporting records for the allocation of funds to LEAs to determine if the funds were appropriately distributed to LEAs based on the number of handicapped children.

***Suggested Audit Procedures** (LEA)*

Review records on the number of handicapped children served to determine if the number of handicapped children reported by LEA is adequately supported.

Compliance Requirement

The 20 percent of an EHA-B grant award that a State can set aside to provide direct or support services is subject to the matching requirements. This requirement would be satisfied if the State can document that the amount of State funds expended for each major program area (e.g., the comprehensive system of personnel development) is at least equal to the expenditure of Federal funds in that program area. (34 CFR 300.371)

***Suggested Audit Procedure** (SEA)*

Test expenditure and related records to ascertain whether the State matched Federal funds for direct and support services on a program basis.

Compliance Requirement

A LEA must use Federal funds to supplement, not supplant, State or local funds. Compliance can be established either on the basis of a per capita or aggregate expenditure test. Allowance may be made for decreases in enrollment of handicapped children and unusually large expenditures for long-term purposes, such as equipment or construction. (34 CFR 300.230)

Suggested Audit Procedures

- Ascertain the amount of State and local funds that LEA has spent on special education and related services during the year in question and the preceding year. Determine whether those expenditures, total or average per capita, are at least equal to those for the preceding year.

- Review expenditure records to ascertain whether Federal funds were used to supplant any particular cost that was covered by State and local funds in the preceding year.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

A SEA must ensure that subrecipients establish and implement procedural safeguards. These procedural safeguards generally deal with parental notification and rights and hearing processes. (34 CFR 300.500–300.514)

***Suggested Audit Procedure** (SEA)*

Review SEA's procedures for ensuring that its subrecipients have established and implemented procedural safeguards, and determine if they provide SEA with reasonable assurance that the safeguards have been implemented.

***Suggested Audit Procedures** (LEA)*

- Review policies and procedures to determine if they include the required procedural safeguards.
- On a test basis, review appropriate records to determine whether (1) required prior notices were given to parents and (2) hearing proceedings were in accordance with the requirements.

Compliance Requirements

A State shall ensure that each public agency develops and implements an individualized education program (IEP) for each of its handicapped children and that IEPs are developed for each handicapped child who is placed in or referred to a private school or facility by a public agency or who is enrolled in a private school and receives special education or related services from a public agency. (34 CFR 300.341)

The IEP for each child should include (1) a statement of the child's present level of educational achievement, (2) a statement of the annual goals, (3) a statement of the special education and related services to be provided, (4) the projected dates for initiation of the services and the anticipated durations of the services, and (5) appropriate objective criteria and evaluation procedures. (34 CFR 300.346)

***Suggested Audit Procedure** (SEA)*

Review the State's policies and procedures to ensure that IEPs are prepared as required, and evaluate the procedures for adequacy.

***Suggested Audit Procedures** (LEA)*

- Review a sample of pupil records to determine whether IEPs that include the preceding requirements were prepared.
- Ascertain the amount of EHA–B funds used to provide services to handicapped children who did not have adequate IEPs.

Compliance Requirements

A grantee and subgrantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure. In State-administered programs, grantees and subgrantees must obligate funds by the end of the fiscal year succeeding the fiscal year for which those funds are appropriated. (34 CFR 76.704–707)

- The grantee and subgrantee shall maintain documentation to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occurred outside of the period of availability, the funds are not time obligated and they shall be returned.
- If a grantee or subgrantee uses a different accounting system from one year to the next, it shall demonstrate that the system was not improperly changed to avoid lapsing funds.
- A grantee may not reallocate grant funds from one subgrantee to another subgrantee after the period of availability.
- A grantee or subgrantee may not make accounting adjustments after the period of availability to offset audit disallowances. The disallowed costs must be refunded.

***Suggested Audit Procedures** (LEA and SEA)*

- Examine transactions recorded after the end of the period of availability and determine if the underlying obligation was recorded in the proper period.
- Test some transactions that were recorded within the period of availability and determine if the underlying obligations occurred within the period of availability.

- Examine the audited entity's reallocations of Federal funds to determine whether they occurred within the period of availability.

LIBRARY SERVICES

84.034

I. PROGRAM OBJECTIVES

The objectives of the Library Services Program are to (1) provide improved library access for all persons who by reason of distance, residence, physical handicap, or other disadvantages are unable to receive the benefits of public library services; (2) help local libraries provide information referral services to the community and to make effective use of technology; (3) help libraries and other organizations provide literacy programs for adults and school dropouts; (4) provide library services to individuals with LEP; (5) strengthen the capacity of State Library Administrative Agencies (SLAAs) to meet library needs; (6) support and expand the services of major urban resource libraries; and (7) strengthen metropolitan libraries serving as regional resource centers. (34 CFR 770.10)

II. PROGRAM PROCEDURES

Library services are administered in each State by the officially designated SLAA, which submits to the Department of Education a State plan consisting of (1) a basic State plan, (2) a long-range program, and (3) an annual program. SLAAs operate the programs, directly making grants and negotiating subgrants under the purposes of the program with eligible subgrant recipients such as local public libraries. (34 CFR 770.21)

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Funds allotted to a State for the purpose of Section 101 (Grants to States for Library Services) of Title I (Library Services) of the Library Services and Construction Act (LSCA), must be used solely for paying the Federal share of the cost of activities specified in Section 102 (Uses of Federal Funds) of the Act, and previously listed under program objectives (34 CFR 770.10). In addition, funds allotted to a State may also be used to pay the cost of carrying out its administrative functions, including obtaining the services of consultants, statewide planning for and evaluation of library services, dissemination of information concerning library services, activities of the State Advisory Council on Libraries and of other advisory groups and panels that may be necessary, and all other State library administrative costs necessary to carry out activities of Title I (Library Services), Title II (Public Library Construction), and Title III (Interlibrary Cooperation and Resource Sharing). (34 CFR 770.43)

Suggested Audit Procedure *(States and Subgrantees)*

Test expenditure and related records to determine whether funds were used for allowable services.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- The amount of State funds available for expenditure for program purposes must be as great as, or greater than, the amount of State funds expended for program purposes in the second preceding fiscal year. (Sec. 7(a)(2) and 34 CFR 770.30(b)(1)(ii))
- The amount of State and local funds available for expenditure for program purposes must be as great as, or greater than, the total expenditures from such combined

sources expended for program purposes in the second preceding fiscal year. (Sec. 7(a)(1)(B) and 34 CFR 770.30(b)(1)(i)(B))

- The amount of Federal, State, and local funds available for expenditure for State institutional library services and library services for the physically handicapped must be as great as, or greater than, the total amount expended from all of these sources for each of these program purposes during the second preceding fiscal year. (Sec. 103(3) and 34 CFR 770.40(c)(1))
- The amount of Federal funds paid to any major urban resource library (MURL) must be as great as, or greater than, the amount reserved for that MURL in the preceding fiscal year. (Sec. 103(7) and 34 CFR 770.40(d))
- The amount of Federal funds expended for a State's administrative costs in connection with any LSCA program or activity may not exceed the greater of (1) 6 percent of the sum of the amounts allotted to such State under Titles I, II, and III for any fiscal year or (2) $60,000. (Sec. 8 and 34 CFR 770.43(b))

Suggested Audit Procedures *(States and Subgrantees)*

Compare current and second preceding year financial records for maintenance of effort levels for (1) library Services, (2) State institutional library services, and (3) library services for the physically handicapped to determine whether compliance requirements have been met.

Suggested Audit Procedures *(States)*

- Compare current and preceding year financial records to determine whether amounts reserved for each MURL meet compliance requirements.
- Review the State administrative costs for all three Titles to determine if each meets the requirement for limiting amounts to be expended.

Compliance Requirement

The State may not include in-kind contributions among the amounts the State declares it will have available under the program for expenditure. (Sec. 7(a) and 34 CFR 770.24(b)(5)(ii))

Suggested Audit Procedure *(States)*

Review the financial records to determine if in-kind contributions are being counted as actual expenditures.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirements

A grantee or subgrantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure. In State-administered programs, grantees and subgrantees must obligate funds by the end of the fiscal year succeeding the fiscal year for which those funds are appropriated (34 CFR 76.704–707)

- The grantee and subgrantee shall maintain documentation to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occurred outside of the period of availability, the funds are not time obligated and they shall be returned.
- If a grantee or subgrantee uses a different accounting system from one year to the next, it shall demonstrate that the system was not improperly changed to avoid lapsing funds.
- A grantee may not reallocate grant funds from one subgrantee to another subgrantee after the period of availability.
- A grantee or subgrantee may not make accounting adjustments after the period of availability to offset audit disallowances. The disallowed costs must be refunded.

Suggested Audit Procedures *(States and Subgrantees)*

- Examine transactions recorded after the end of the period of availability, and determine if the underlying obligation was recorded in the proper period.
- Examine the audited entity's reallocations of Federal funds to determine whether they occurred within the period of availability.
- Test some transactions that were recorded within the period of availability, and determine if the underlying obligations actually occurred within the period of availability.

IMPACT AID MAINTENANCE AND OPERATIONS

84.041

I. PROGRAM OBJECTIVES

The objectives of the School Assistance in Federally Affected Areas Program (Impact Aid—Public Law 81–874) are to provide financial assistance to LEAs (1) whose local revenues or enrollments are adversely affected by Federal activities, that is, by the Federal acquisition of real property or children residing on tax-exempt Federal property or residing with a parent employed on tax-exempt Federal property ("federally connected" children) and (2) that are affected by a major disaster declared by the President.

II. PROGRAM PROCEDURES

Funds are provided on the basis of statutory criteria and data supplied by LEAs in applications submitted through their respective SEAs. Generally, entitlements under section 3 of the Impact Aid Program are based on membership and attendance counts of federally connected children, with additional funds provided for certain federally connected handicapped children and children residing on Indian lands.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

LEA shall use the increase in entitlement funds under section 3(d)(2)(C) for special education programs that are designed to meet the special education needs of federally connected handicapped children, without reducing either the general State aid or specific handicapped State aid for federally connected handicapped children.

Allowable costs include expenditures reasonably related to the conduct of programs or projects for the education of handicapped children, including program planning and evaluation and acquisition costs of equipment, except when the title to that equipment would be in a private school and not in the recipient agency, for programs to meet the educational and related needs of handicapped children. Costs associated for school construction are not allowable. (34 CFR 222.74(c))

Suggested Audit Procedures

- Evaluate the policies and procedures developed by LEA to provide reasonable assurance that section 3(d)(2)(C) funds are used for allowable activities. (34 CFR 222.74(c))
- Test expenditure and related records to determine whether funds were actually used for allowable activities. (For specific compliance tests see 34 CFR 226.74(d) and 222.75.)

Compliance Requirement

Funds provided for major disaster assistance may be used for the purposes and in the amounts cited in the application approval letter. (34 CFR 219.41, 219.42)

Suggested Audit Procedure

Determine whether the funds received for major disaster assistance are properly accounted for and were used for the purposes and in the amounts cited in the approved application.

B. Eligibility

Compliance Requirements

- To be eligible for funds under section 3 (basic programs), LEA's federally connected (section 3(a) and (b)) children must equal at least 400, or 3 percent of the total number of children in average daily attendance (except in the limited circumstances described in Section 3(c)(2) of Public Law 81–874). LEA

submits data on its membership of federally connected children in its application.

- Each child claimed under section 3(a) must, while in attendance at LEA, either (1) reside on Indian lands (as described in section 403(1)(A) of Public Law 81–874) or (2) reside on Federal property (as defined in 34 CFR 222.3) and (a) have a parent employed on Federal property within the same State as LEA or (b) have a parent who is on active duty in the uniformed services.
- Each child claimed under section 3(b) must, while in attendance at LEA, either (1) reside on Federal property, (2) reside with a parent employed on Federal property situated in the same State as LEA, or (3) have a parent who is on active duty in the uniformed services. In addition, a child also qualifies who resides with a parent who during the prior 3 years was a refugee when the number of such children constitutes at least 20 percent of the average daily attendance of the district. (34 CFR 222.3, Sections 3(a), 3(b), 3(c)(1), and 403(1)(A) of Public Law 81–874)

Suggested Audit Procedures

- Evaluate LEA procedures for ensuring an accurate membership count.
- Test documentation supporting the membership counts included in the application, and determine whether children claimed as being federally connected met the requirements of the category for which they were claimed.

Compliance Requirements

The following requirements must be met for any federally connected handicapped child (referred to as "SPED" child on the Impact Aid payment voucher) claimed as the basis for increased funds under section 3(d)(2)(C). (34 CFR 222.72)

- The child must be handicapped or have a specific learning disability.
- The child must have a parent on active duty in the uniformed services, or the child must reside on Indian lands.
- The child must be enrolled in a program that conforms to State standards for handicapped children and that is of sufficient size, scope, and quality to give reasonable promise of substantial progress toward meeting the child's special educational and related needs. The child must be receiving services suited to those needs.
- LEA shall have in effect a written individualized education program.

Suggested Audit Procedure

Test a sample of federally connected handicapped children that were claimed for an increased payment to determine if the preceding requirements were met.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

For each fiscal year, the total amount of expenditures for programs or projects serving federally connected handicapped children must be at least equal to the amount of section 3(d)(2)(C) funds received or credited for that fiscal year. (34 CFR 222.74(d))

Suggested Audit Procedures

- Evaluate LEA procedures for determining and ensuring compliance with this requirement.
- Review expenditure and related records to determine if the requirement was met.

Compliance Requirement

Section 3(d)(2)(C) funds may not supplant any State funds (either general or special education State aid) that were or would have been available to LEA for the free public education of children counted under section 3(d)(2)(C). A reduction in the per-pupil amount of State aid for handicapped children, including children counted under section 3(d)(2)(C), from that received in the previous year raises a presumption that supplanting has occurred. LEA can rebut this presumption by demonstrating that the reduction was unrelated to the receipt of section 3(d)(2)(C) funds. (34 CFR 222.75)

Suggested Audit Procedure

Compare LEA prior year general and handicapped State aid per pupil with its current year general and handicapped State aid per pupil to determine if supplanting occurred.

***Compliance Requirement** Major Disaster Assistance—Public Law 81–874, Section 7 (Public Law 81–815, Section 16)*

Beginning with fiscal year 1989 disasters, a LEA that is otherwise eligible for Federal disaster assistance under section 7 of Public Law 81–874 (or section 16 of Public Law 81–815) must meet a threshold eligibility requirement of needing additional assistance, after using all other funds available, equal to the lesser of $10,000 or 5 percent of LEA current operating expenditures for the preceding fiscal year. For disasters occurring before fiscal year 1989, the required threshold eligibility amount is the lesser of $1,000 or one-half of 1 percent of LEA current operating expenditures for the preceding fiscal year. (See section 7(a)(3) of Public Law 81–874 and 34 CFR 219.2(b).)

Suggested Audit Procedure

Review appropriate records to determine if the threshold was met.

Compliance Requirement

SEA or one of its subdivisions must spend a reasonable amount of funds for eligible disaster-related costs included in LEA's approved application. Twenty-five percent is accepted as a reasonable contribution, unless otherwise agreed by the Department of Education. (34 CFR 219.22)

Suggested Audit Procedure

Determine whether the requirement of a reasonable contribution as described in this section has been met.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

There are no special tests or provisions.

VOCATIONAL EDUCATION—BASIC GRANTS TO STATES

84.048

I. PROGRAM OBJECTIVES

The objectives of the basic State grant for vocational education are to (1) assist States in expanding, improving, modernizing, and developing quality vocational education programs to meet the needs of the Nation's existing and future workforce for marketable skills and to improve productivity and promote economic growth; and (2) ensure that quality vocational education programs are accessible to all people, especially those who have been inadequately served. (Public Law 98–524, section 2; 34 CFR 400.1)

II. PROGRAM PROCEDURES

Funds are provided to State boards for vocational education, in accordance with a statutory formula, on submission of a 3-year program plan, in the case of the initial plan, and a 2-year program plan thereafter. The State boards, in turn, make grants to eligible recipients (either LEAs or postsecondary institutions), operate programs directly, or contract for services as described in the Carl D. Perkins Vocational Education Act (Perkins Act). (Public Law 98–524, as amended by Public Law 99–159)

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

A State council on vocational education shall use grant moneys from its separate grant to (1) meet with the State board to advise on the development of the State plan; (2) make reports to the Governor, the business community, and the general public on vocational education policies and private sector initiatives and methods to modernize vocational education programs; (3) analyze and report on the distribution of vocational education funds and the availability of vocational education services and activities; (4) consult with the State board on the establishment of vocational education evaluation criteria; (5) make recommendations on the conduct of vocational education programs that emphasize the use of business concerns and labor organizations; (6) assess and report on the distribution of financial assistance; (7) make recommendations to ensure and enhance the participation of the public, local employers, and local labor organizations in the provision of vocational education at the local level; and (7) report on the extent to which target populations are provided equal access to quality vocational education programs. (Public Law 98–524, section 112(d); 34 CFR 401.16(b)(1)–(8))

Suggested Audit Procedure

Review the expenditure and related records to determine whether costs claimed are allowable.

Compliance Requirements

A State shall use grant moneys under the Vocational Education Opportunities Program, Part A, to provide vocational education services and activities designed to meet the special needs of and to enhance the participation of handicapped and disadvantaged individuals; adults in need of training and retraining; single parents, homemakers, or single pregnant women; persons participating in programs designed to eliminate sex bias and stereotyping in vocational education; and the incarcerated. Allowable activities under this program are identified in 34 CFR 401.51–401.58.

A State may use grant moneys under the Vocational Education Improvement, Innovation, and Expansion Program (Part B) to expand, improve, modernize, or develop high-quality vocational education projects, services, or activities. Allowable activities under this program are

described in 34 CFR 401.60. Funds used under 34 CFR 401.60(a) may not be used to maintain existing projects, services, or activities. Programs may be considered new, expanded, improved, modernized, or developed for up to 3 years. Funds used under 34 CFR 401.60(b) or (c) may be used to maintain existing services and activities. (34 CFR 401.59–401.61)

Suggested Audit Procedures *(State Agencies)*

- Review internal controls designed to ensure expenditures are made only for allowable services.
- Test expenditure and related records to determine whether programs, services, and activities funded by the State are allowable.
- Review selected approved local applications to determine whether funded activities are allowable.

Suggested Audit Procedure *(Eligible Recipients)*

Review expenditure records and supporting documentation to determine whether funds were spent only for allowable services and activities in accordance with an approved application.

B. Eligibility

Compliance Requirements

The funds reserved under Part A to provide vocational education services and activities for the handicapped are limited to individuals who are mentally retarded, hearing impaired, deaf, speech or language impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired, other health impaired, deaf-blind, multi-handicapped, or persons with specific learning disabilities who, because of their handicapping condition, require special education and related services, and who, because of their handicapping condition, cannot succeed in the regular vocational education program without special education assistance. (34 CFR 400.4(b))

The funds reserved under Part A to provide vocational education services and activities for the disadvantaged are limited to individuals—other than handicapped individuals—who have economic or academic disadvantages and who require special services and assistance to enable them to succeed in vocational education programs. The term "disadvantaged" includes (1) members of economically disadvantaged families (as determined by at least one of five standards established by the Secretary of Education); (2) migrants; (3) individuals with LEP; (4) individuals who are dropouts or potential dropouts from secondary school; and (5) individuals who are academically disadvantaged as defined by standardized achievement of aptitude test scores, secondary school grades, or failure to attain minimal academic competencies. (34 CFR 400.4(b))

Suggested Audit Procedures *(Eligible Recipients or State Directly Operated Programs)*

- Evaluate the adequacy of the procedures to ensure that only eligible participants receive services.
- Review an appropriate sample of pupil records, and determine whether prescribed procedures were followed and whether the pupils were eligible.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

- The State shall distribute at least 80 percent of the Basic Grant (Title II) to eligible recipients. (34 CFR 401.19(a)(4))
- The State may use up to 7 percent of the Basic Grant for State administration. The remaining balance is divided into Part A (57 percent) and Part B (43 percent). (34 CFR 401.90(b)(1), (2); 401.91(a))

A State shall expend at least $60,000 of the State administration reserve for sex-equity functions, including assigning one individual to work full time to assist the State board. (34 CFR 401.13; CFR 401.91(b)(1), (2))

A State shall make the 57 percent reserved for Part A available as follows:

- 10 percent for handicapped individuals.
- 22 percent for disadvantaged individuals.
- 12 percent for adults in need of training and retraining.
- 8.5 percent for single parents, homemakers, and single pregnant women.
- 3.5 percent for participants in programs designed to eliminate sex bias and stereotyping.
- 1.0 percent for the incarcerated.

(Public Law 98–524, section 202, as amended by Public Law 100–297; 34 CFR 401.92)

The following requirements govern funds reserved under Part A:

- A State shall distribute 100 percent of the funds reserved for handicapped and disadvantaged individuals. (34 CFR 401.19(a)(5))
- A State shall distribute funds for handicapped and disadvantaged individuals to participating eligible recipients based on the relative number of economically disadvantaged individuals enrolled in each eligible recipient and the relative number of handicapped and disadvantaged individuals and individuals with LEP served in vocational education programs by each recipient. (34 CFR 401.95, 401.96)
- A State shall provide for the participation of handicapped and disadvantaged individuals enrolled in private elementary and secondary schools in the State, to the extent consistent with the number and location of such individuals. (34 CFR 401.19(a)(3))
- A State shall provide equal access to handicapped and disadvantaged individuals in recruitment, enrollment, and placement activities and to the full range of programs available to other individuals. Specifically for handicapped persons, a State shall provide these services and programs in LEAst restrictive environment as a part of an IEP and as planned through coordination between vocational education and special education representatives. (34 CFR 401.19(a)(18))
- A State shall furnish relevant training and vocational education activities to men and women who desire to enter occupations that are not traditionally associated with their sex. (34 CFR 401.19(a)(7))
- A State shall use funds allotted for single parents, homemakers, and single pregnant women to emphasize assisting individuals with the greatest financial need and to give special consideration to homemakers who, because of divorce, separation, or spousal death or disability, must prepare for paid employment. (34 CFR 401.19(a)(6))

The following requirements govern funds reserved for Part B:

- A State shall expend some of the funds for personnel development and curriculum development. (34 CFR 401.19(a)(11))
- For each program year, a State's expenditures from Title II and Title III–D for career guidance and counseling will not be less than the State's expenditures for this purpose in program year 1984 from section 134(a) of the Vocational Education Act of 1963. (34 CFR 401.19(a)(15))
- A State shall allocate more Title II and Title III funds to eligible recipients in economically depressed or high unemployment areas than to eligible recipients in other areas. (34 CFR 401.19(b)(4))

Suggested Audit Procedure *(State Agencies)*

Review expenditure and related records and supporting documentation to determine whether the amounts that the State has distributed to eligible recipients, expended for administrative costs, and expended for targeted populations and programs comply with the minimum percentage requirements in the compliance requirements.

Compliance Requirements

The limit of the Federal share of the cost of State administration is 50 percent. (34 CFR 401.94(b)(1)(i))

The limit of the Federal share of the cost of local administration is 50 percent. (34 CFR 401.94(b)(1)(ii))

The Federal share of the cost of projects providing additional or supplemental staff, equipment, materials, and services activities essential to assist handicapped and disadvantaged individuals to succeed in vocational education programs is 50 percent. If the conditions of such individuals require a separate program, the funds may be used only for the Federal share of the costs of the services and activities in the separate vocational education programs that exceed the average per-pupil expenditures for comparable regular vocational education services and activities. (34 CFR 401.52, 401.53, 401.94(b)(1)(iii))

The Federal share of the cost of projects, services, and activities for adults in need of training and retraining is 50 percent. (34 CFR 401.94(b)(1)(iii))

The Federal share of the cost of projects, services, and activities is 100 percent for single

parents, homemakers, or single pregnant women; individuals in programs designed to eliminate sex bias and stereotyping; and the incarcerated. (34 CFR 401.94(b)(1)(iv))

The Federal share of the cost of projects, services, and activities under Part B is 50 percent. (34 CFR 401.94(b)(1)(v))

A State or eligible recipient may not use the value of in-kind contributions to satisfy a cost-sharing requirement, except in the following circumstances. For the non-Federal share of the costs of projects, services, and activities for the disadvantaged, contributions from local sources may be in-kind contributions, to the extent that the eligible recipient cannot provide the contribution in cash. (34 CFR 401.97)

Suggested Audit Procedures *(State Agencies and Eligible Recipients)*

- Test expenditure and related records to determine whether the Federal and non-Federal share of costs are in accordance with the matching requirements.
- Test expenditures claimed as matching costs for allowability.

Compliance Requirement

A State shall maintain its fiscal effort in the preceding year from State sources for vocational education on either an aggregate or a per-student basis when compared with such effort in the second preceding year, unless this requirement is specifically waived by the Secretary of Education. The waiver may be for 1 fiscal year only when it is determined that such a waiver would be equitable because of exceptional or uncontrollable circumstances affecting the ability of the applicant to meet this requirement. (34 CFR 401.22)

Suggested Audit Procedures *(State Agencies)*

- Ascertain whether the Secretary of Education waived the expenditure requirement.
- Review the preceding and second preceding years' expenditures for vocational education from State sources, and determine if fiscal effort was maintained on either an aggregate or per-pupil basis.

Compliance Requirement

A State shall use Federal funds to supplement, not supplant, State or local funds. (34 CFR 401.19(a)(16))

Suggested Audit Procedures *(State Agencies)*

- Evaluate the adequacy of the systems to ensure that Federal funds supplement, not supplant, non-Federal funds.
- Test the system to determine if the grantee used vocational education funds to supplant non- Federal funds.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirements *(State Agencies)*

A State that desires to participate in vocational education programs authorized by the Perkins Act shall establish a State council to carry out the legislated functions. (34 CFR 401.14)

Each State council must be composed of 13 individuals and must be broadly representative of citizens and groups within the State having an interest in vocational education. Each State council shall consist of the following:

- Seven individuals who are representative of the private sector. Five of these shall be representative of business, industry, and agriculture. Two of these shall be representative of labor organizations.
- Six individuals who are representative of secondary and postsecondary vocational institutions and career guidance and counseling organizations and individuals who have special knowledge and qualifications with respect to the special educational and career development needs of special populations. One of these shall be representative of special education. (Public Law 98–524, section 112(a); 34 CFR 401.15)

Suggested Audit Procedure

Obtain a list of State council members and compare each member's job title or other job description with the membership category to determine whether the requirements have been met.

Compliance Requirements

A grantee or subgrantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure. In State-administered programs, grantees and subgrantees must obligate funds by the end

of the fiscal year succeeding the fiscal year for which those funds were appropriated. (34 CFR 76.704–707)

- The grantee and subgrantee shall maintain documentation to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occurred outside of the period of availability, the funds are not time obligated and they shall be returned.
- If a grantee or subgrantee uses a different accounting system from one year to the next, it shall demonstrate that the system was not improperly changed to avoid lapsing funds.
- A grantee may not reallocate grant funds from one subgrantee to another subgrantee after the period of availability.
- A grantee or subgrantee may not make accounting adjustments after the period of availability to offset audit disallowances. The disallowed costs must be refunded.

Suggested Audit Procedures *(Eligible Recipient and State Agencies)*

- Examine transactions recorded after the end of the period of availability and determine if the underlying obligation was recorded in the proper period.
- Test some transactions that were recorded within the period of availability and determine if the underlying obligations occurred within the period of availability.
- Examine the audited entity's reallocations of Federal funds to determine whether they occurred within the period of availability.

Compliance Requirements

A State shall annually evaluate the projects, services, and activities of at least 20 percent of the participating eligible recipients so that at the end of 5 years, the State will have evaluated all local programs. The evaluations include all activities funded by the Perkins Act. (Public Law 98–524, section 113(b)(9)(C), as amended by Public Law 99–159; 34 CFR 401.19(a)(10))

A State shall develop measures for evaluating the effectiveness of programs, including factors such as the occupations for which individuals will be trained, the levels of skills to be achieved, and the basic employment competencies to be used in performance outcomes. (Public Law 98–524, section 113(b)(9)(A); 34 CFR 401.19(a)(8))

A State shall establish appropriate measures for evaluating the effectiveness of programs for the handicapped. (Public Law 98–524, section 113(b)(9)(B); 34 CFR 401.19(a)(9))

A State shall provide whatever fiscal control and fund accounting procedures are necessary to ensure the proper disbursement of and accounting for Federal funds paid to the State, including Federal funds paid by the State to eligible recipients. (Public Law 98–524, section 113(b)(17); 34 CFR 401.19(b)(17))

Suggested Audit Procedures

- Review the evaluation instrument used by the State to determine if it includes all local activities funded under the Perkins Act.
- Review selected completed evaluation reports to determine if the State conducted a complete evaluation.

VOCATIONAL EDUCATION—CONSUMER AND HOMEMAKING EDUCATION

84.049

I. PROGRAM OBJECTIVE

The objective of the Cconsumer and Homemaking Education Program is to assist States in conducting consumer and homemaking education programs. These programs include preparing youth and adults for the occupation of homemaking, with instruction in food and nutrition; consumer education; family living and parenthood education; child development and guidance; housing; home management, including resource management; and clothing and textiles. (Public Law 98–524, section 311; 34 CFR 401.73(a))

II. PROGRAM PROCEDURES

Funds are provided to State boards for vocational education, in accordance with a statutory formula, on submission of a 3-year program plan in the case of the initial plan and a 2-year program plan thereafter. The State boards, in turn, make grants to eligible recipients, operate programs directly, or contract for services.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirements

A State shall use funds to (1) conduct programs in economically depressed areas; (2) encourage participation of traditionally underserved populations; (3) encourage the elimination of sex bias and stereotyping; (4) improve, expand, and update programs, especially as they address the needs of these targeted groups and areas; and (5) address national, State, and local priorities and concerns. (34 CFR 401.73(b)(1)–(5))

A State may use funds for program development and the improvement of instruction and curricula in certain subject areas and for support services and activities designed to ensure the quality and effectiveness of programs. (34 CFR 401.73(c)(1), (2))

Suggested Audit Procedures *(State Agencies and Eligible Recipients)*

- Review internal controls designed to ensure that expenditures are made only for allowable services.
- Test expenditure and related records to determine whether expenditures were made only for allowable programs, services, and activities.
- Test an appropriate sample of approved local applications to determine whether funded activities are allowable.

B. Eligibility

Compliance Requirement

In selecting economically depressed areas or areas with high rates of unemployment for funding, a State will consider an area to be economically depressed if it is an economically integrated area within a State in which a chronically low level of economic activity or a deteriorating economic base has caused adverse effects, such as either (1) an unemployment rate that exceeds by 50 percent the State or national unemployment rate for the 3 previous years or (2) a large concentration of low-income families. (34 CFR 400.4(b))

Suggested Audit Procedures *(State Agencies)*

- Review the procedures used by the State to determine economically depressed areas or areas with high rates of unemployment and evaluate for adequacy.

- Identify the source of the State's demographic information and consider its reliability.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

A State shall use at least one-third of its grant funds in economically depressed areas or areas with high rates of unemployment. (34 CFR 401.102(a))

A State shall expend some of its grant for State leadership that is qualified by experience and preparation in home economics education. (34 CFR 401.102(b)(2))

In addition to the 7 percent for administration reserved from the Basic Grant, a State may expend up to 6 percent of the allotment for this program for State administration of projects, services, and activities under the program. (34 CFR 401.102(c))

Suggested Audit Procedures *(State Agencies)*

- Review expenditure and related records and supporting documentation to determine whether the amounts the State has distributed to targeted areas, expended for State leadership, and expended for administrative costs, comply with these requirements.
- Review selected approved local applications to determine if projects fulfill program purposes and whether eligible recipients served targeted groups meeting these compliance requirements.

Compliance Requirements

The Federal share of the cost of the project is 100 percent. (34 CFR 401.94(b)(2)(iii))

The Federal share of the cost of State administration is 50 percent. (34 CFR 401.94(b)(2)(i))

The Federal share of the cost of local administration is 50 percent. (34 CFR 401.94(b)(2)(ii))

Suggested Audit Procedure *(States and Eligible Recipients)*

Review expenditure and related records and supporting documentation to determine whether the Federal and non-Federal shares of administrative costs are in accordance with the Perkins Act requirements cited previously.

Compliance Requirement

A State shall use Federal funds to supplement, not supplant, State or local funds. (34 CFR 401.19(a)(16))

Suggested Audit Procedures *(State Agencies and Eligible Recipients)*

- Evaluate the adequacy of the systems to ensure that Federal funds supplement, not supplant, non-Federal funds.
- Test the system to determine whether the grantee used Federal funds to supplement non-Federal funds.

D. Special Reporting Requirements

There are no special reporting requirements.

E. Special Tests and Provisions

Compliance Requirement

A grantee or subgrantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure. In State-administered programs, grantees and subgrantees must obligate funds by the end of the fiscal year succeeding the fiscal year for which those funds are appropriated. (34 CFR 76.704–707)

- The grantee and subgrantee shall maintain and be able to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occurred outside of the period of availability, the funds are not time obligated and they shall be returned.
- If a grantee or subgrantee uses a different accounting system from one year to the next, it shall demonstrate that the system was not improperly changed to avoid lapsing funds.
- A grantee may not reallocate grant funds from one subgrantee to another subgrantee after the period of availability.
- A grantee or subgrantee may not make accounting adjustments after the period of availability to offset audit disallowances. The disallowed costs must be refunded.

Suggested Audit Procedures *(State Agencies and Eligible Recipients)*

- Examine transactions recorded after the end of the period of availability and determine if

the underlying obligation was recorded in the proper period.

- Test some transactions that were recorded within the period of availability and determine if the underlying obligations occurred within the period of availability.
- Examine the audited entity's reallocations of Federal funds to determine whether they occurred within the period of availability.

REHABILITATION SERVICES BASIC SUPPORT

84.126

I. PROGRAM OBJECTIVES

The purpose of Title I of the Rehabilitation Act is to assist States in meeting the current and future needs of individuals with handicaps so that these individuals may prepare for and engage in gainful employment to the extent of their capabilities.

II. PROGRAM PROCEDURES

The Rehabilitation Act of 1973 (Public Law 93–112), as amended by the Rehabilitation Act Amendments of 1986 (Public Law 99–506), authorizes the allocation of Federal funds on a formula basis to States. Each State must designate a State agency to administer its State plan for vocational rehabilitation services. If the designated agency is not primarily concerned with rehabilitation, the law requires that an organizational unit within that State agency be assigned the responsibility for the vocational rehabilitation program. (Section 101(a)(1) and (2) of the Act and 34 CFR 361.5, 361.6)

Each designated State agency must submit a State plan every 3 years. The State plan is used as the primary basis by which the Rehabilitation Services Administration (RSA) Commissioner monitors compliance with statutory and regulatory requirements.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. Types of Services Allowed or Unallowed

Compliance Requirement

Under Section 103(b)(2) of the Rehabilitation Act, a State may use funds for the establishment or construction of rehabilitation facilities if the State plan so provides. In addition, State vocational rehabilitation agencies are required to have a State plan for rehabilitation facilities. (34 CFR 361.21, 361.73, 361.74)

Suggested Audit Procedures

- Select several projects for construction and establishment of facilities for review to determine whether the Federal requirements have been met.
- Determine whether the costs incurred were eligible for Federal financial participation.

Compliance Requirement

Section 103(b)(2) of the Rehabilitation Act authorizes the State vocational rehabilitation agency to provide other facilities and services to groups of individuals with handicaps. If such facilities or services are included in the State plan, written policies must be established. (34 CFR 361.53, 361.75)

Suggested Audit Procedures

- Determine whether the facilities and services were provided through the State agency's established written policies in accordance with 34 CFR 361.53 and 361.75.
- Determine whether costs incurred were eligible for Federal financial participation.

Compliance Requirements

Vocational rehabilitation services provided under the Rehabilitation Act of 1973, as amended, are as follows: (1) any goods or services necessary to render an individual with handicaps employable and include evaluation of vocational rehabilitation potential; (2) counseling and guidance; (3) physical and mental restoration services necessary to correct or substantially modify a physical or mental condition that is stable or slowly progressive; (4) vocational and other training services (except that no training or materials in institutions of higher education may be paid for from this part unless maximum efforts have been made to

secure other grant assistance); (5) maintenance during rehabilitation; (6) transportation and related expenses for the purpose of supporting the vocational rehabilitation; (7) services to members of the family of an individual with handicaps when necessary to the vocational rehabilitation of the individual with handicaps; (8) reader services, rehabilitation teaching services, and note-taking services; (9) orientation and mobility services for the blind; (10) telecommunications, sensory and other technological aids; (11) recruitment and training services to provide new employment opportunities in the fields of rehabilitation, health, welfare, public safety, law enforcement and other appropriate public service employment; (12) occupational licenses; (13) rehabilitation engineering services; and (14) other goods and services that can reasonably be expected to benefit an individual with handicaps in terms of employability.

Vocational rehabiitation services are provided on an individual basis tailored to the specific needs of each handicapped person. State vocational rehabilitation agency professional staff provide referral, counseling, guidance, and placement services. They also coordinate the acquisition of needed services from other public programs or purchase the required services on a fee-for-service basis from the private sector.

A State vocational rehabilitation agency is required to develop an Individual Written Rehabilitation Program (IWRP) for each individual receiving services. The IWRP must document (1) the determination and achievement of a vocational goal; (2) terms and conditions for the provision of vocational rehabilitation services; (3) periodic review and evaluation of progress; (4) views of the individual with handicaps; (5) full participation of the individual with handicaps in the development of the IWRP; (6) review procedures for ineligibility; (7) appeal rights if the individual with handicaps is dissatisfied with the provision of services; and (8) plans for the provision of postemployment services. (34 CFR 361.40, 361.41)

Suggested Audit Procedure

Review a sample of client records and determine (1) whether an IWRP was written and contains a plan for services to be provided, documentation to support entries, and evidence the individual participated in development of the IWRP and (2) whether the services provided were included in the client's IWRP.

Compliance Requirement

Section 101(a)(8) of the Rehabilitation Act requires that before providing all services specified in Section 103(a) of the Rehabilitation Act, except for evaluation of rehabilitation potential, counseling, guidance, referral, placement, vocational and other training services, and rehabilitation engineering services, a State agency must make a determination that comparable services and benefits are not available under any other program, unless such determination would delay the provision of services to any individual at extreme medical risk. If comparable services and benefits are available, they must be used to meet, in whole or in part, the cost of vocational rehabilitation services. (34 CFR 361.47(b))

Suggested Audit Procedure

Review a sample of client records to verify that a determination was made that comparable services and benefits under any other program were not available before vocational rehabilitation services were provided to an individual with handicaps or to members of that individual's family.

Compliance Requirement

The State shall terminate services if (1) an individual is initially found ineligible for vocational rehabilitation (status code 08); (2) a case is closed not rehabilitated, after the IWRP was initiated because the individual is determined to be no longer capable of achieving a vocational goal (status 28); (3) a case is closed, not rehabilitated, before the IWRP was implemented because the case did not progress to the point that vocational rehabilitation services were actually initiated under an IWRP (included here are cases that are transferred to another State vocational rehabilitation agency, either within the State, or in some other State) (status 30); or (4) a case is determined to be rehabilitated (status 26) and meets the minimum requirements under 34 CFR 361.40(d) and 361.43.

Suggested Audit Procedures

- Review State case closure policies and procedures to determine if they meet Federal requirements for definition of ineligibility and for successful rehabilitation.
- Test a sample of selected client records to determine whether each case was closed appropriately.

B. Eligibility

Compliance Requirement

Eligibility for vocational rehabilitation services is based only on (1) a physical or mental disability that for the individual constitutes or results in a substantial handicap to employment; and (2) a reasonable expectation that vocational rehabilitation services may benefit the individual in terms of employability. Eligibility determinations must include the evaluation of rehabilitation potential (preliminary diagnostic study) or extended evaluation to determine vocational rehabilitation potential. (34 CFR 361.1(c)(2), 361.31, 361.32, 361.34)

Suggested Audit Procedures

- Evaluate State internal controls for the eligibility determination process.
- Test a sample of client records to determine whether eligibility requirements were met.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirement

For fiscal years 1969 through 1988, the Federal share for each State is 80 percent, except for the cost of construction of rehabilitation facilities. Beginning in fiscal year 1989, the Federal share for each State decreases by 1 percent per year for 5 years for funds received in excess of the amount received in fiscal year 1988. The Federal share of these excess payments is 79 percent in fiscal year 1989; 78 percent in fiscal year 1990; 77 percent in fiscal year 1991; 76 percent in fiscal year 1992; and 75 percent in fiscal year 1993, except for the cost of construction of rehabilitation facilities, in which case the ratio is 50/50 percent. (Sections 7(7) and 110 of the Rehabilitation Act and 34 CFR 361.86) The funds used for the matching requirements must meet the definition of State and local funds. (34 CFR 361.76)

Suggested Audit Procedure

Determine whether the State has met the matching requirements.

Compliance Requirement

Section 111(a)(2)(B) and (C) of the Rehabilitation Act of 1973, as amended, provides that the amount payable to a State for a fiscal year under this section of the Act shall be reduced by any amount by which expenditures from non-Federal sources under the State plan for the prior fiscal year are less than the average of the total of those expenditures for the 3 preceding fiscal years preceding that prior fiscal year. A waiver or modification by the Secretary of Education of this maintenance-of-effort requirement is permitted in response to exceptional or uncontrollable circumstances. (34 CFR 361.86)

Suggested Audit Procedure

Determine whether State maintenance of effort was met, and if appropriate, whether Federal payments were reduced.

D. Special Reporting Requirements

Compliance Requirement

Sections 101(a)(9)(C) and 101(a)(10) of the Rehabilitation Act of 1973, as amended, require a State to submit reports of expenditures and case services on behalf of clients. The reports include, but are not limited to, the data specified in Section 13 of the Act: age, sex, race, ethnicity, education, type of disability, severity of disability, key rehabilitation process dates, earnings at time of entry into program and at closure, work status, occupation, cost of case services, types of facilities or agencies that furnish services and whether each such facility or agency that furnished services is public or private, and reasons for closure.

Suggested Audit Procedures

- Review the adequacy of the procedures used to generate data on expenditures and caseloads for required reports.
- Determine whether the State vocational rehabilitation agency is following its established procedures.
- Test a sample of the client records and determine whether the data contained in the reports were complete.

E. Special Tests and Provisions

Compliance Requirement

A State is required to maintain for each applicant for and recipient of vocational rehabilitation services a case record containing specific information. (34 CFR 361.39)

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Suggested Audit Procedures

- Determine if procedures are in place to ensure that there is a case record for each applicant and recipient.
- Test a sample of applicants and recipients. Determine whether case records contain all documentation required by 34 CFR 361.39, including documentation to support a determination of eligibility or ineligibility to support the particular services that are provided to eligible individuals, and to support the need for postemployment services after an individual's vocational goal has been achieved.

Compliance Requirement

In the event that vocational rehabilitation services cannot be provided to all eligible individuals with handicaps who apply, Section 101(a)(5)(A) of the Rehabilitation Act and 34 CFR 361.36 require a State vocational rehabilitation agency to show and provide justification for the order to be followed in selecting individuals to whom vocational rehabilitation services will be provided. Priority must be given to serving individuals with the most severe handicaps.

Suggested Audit Procedure

Evaluate the system for establishing priorities for the selection of individuals.

Compliance Requirement

A grantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure. In this State-administered program, grantees must obligate funds by the end of the fiscal year for which those funds are appropriated, unless the State has received reallotted funds. Reallotted funds must be obligated within 45 days of the beginning of the subsequent fiscal year. (34 CFR 361.1(c)(2), 361.87)

The following are related requirements:

- The grantee shall maintain records and be able to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occurred outside of the period of availability, the funds are not time obligated and they shall be returned.
- If a grantee uses a different accounting system from 1 year to the next, it shall demonstrate that the system was not improperly changed to avoid lapsing funds.
- A grantee may not make accounting adjustments after the period of availability to offset audit disallowances. The disallowed costs must be refunded.

Suggested Audit Procedures

- Examine transactions recorded after the end of the period of availability and determine if the underlying obligation was recorded in the proper period.
- Test some transactions that were recorded within the period of availability and determine if the underlying obligations occurred within the period of availability.
- Examine the audited entity's reallocations of Federal funds to determine whether they occurred within the period of availability.

FEDERAL, STATE, AND LOCAL PARTNERSHIP FOR EDUCATIONAL IMPROVEMENT (Chapter 2 of ESEA)

84.151[4]

I. PROGRAM OBJECTIVES

The objectives of Chapter 2 of Title I of the Elementary and Secondary Education Act (ESEA) of 1965, as amended, are to (1) provide the initial funding to enable State educational agencies (SEAs) and local educational agencies (LEAs) to implement promising educational programs that can be supported by State and local sources after such programs are demonstrated to be effective; (2) provide a continuing source of innovation, educational improvement, and support for library and instructional materials; (3) meet the special educational needs of at-risk and high-cost students; (4) enhance the quality of teaching and learning through initiating and expanding effective schools programs; and (5) allow SEAs and LEAs to meet their educational needs and priorities for targeted assistance.

SEAs have the basic responsibility for the administration of Chapter 2 funds. Responsibility for the design and implementation of Chapter 2 programs, however, rests mainly with LEAs, school superintendents, principals, classroom teachers, and supporting personnel.

II. PROGRAM PROCEDURES

Funds are obtained by a State following submission of an application to the Secretary of Education. SEA distributes at least 80 percent of the funds to LEAs that have filed applications that meet certain requirements. These funds are distributed to LEAs in accordance with the relative enrollments in public and private nonprofit schools which desire that their children participate in Chapter 2 within the school districts of LEAs. The amounts are adjusted by criteria approved by the Secretary of Education to provide higher per-child allocations to those LEAs having the greatest number or percentage of children whose education imposes a higher than average cost per child. LEAs have complete discretion, subject only to legal requirements, in determining how they will expend the funds.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to the Federal requirements, each SEA has the authority, in accordance with State law, to issue rules consistent with Federal statutes and regulations. These rules should be reviewed before beginning the audit.

A. Types of Services Allowed or Unallowed

Compliance Requirement

SEA shall distribute at least 80 percent of the funds to its LEAs, in accordance with the

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[4]The provisions in this section are contained in Chapter 2 of Title I of the ESEA of 1965, enacted as part of the Augustus F. Hawkins—Robert T. Stafford Elementary and Secondary School Improvement Amendments of 1988. Effective July 1, 1988, these provisions superseded those in Chapter 2 of the ECIA of 1981. During the transition year (1988-89), however, SEAs and LEAs may comply with either the provisions in Chapter 2 of ESEA or Chapter 2 of ECIA. If an audit is being conducted of the 1988-89 transition year and if the auditors would like further information on compliance requirements and suggested audit procedures for Chapter 2 of ECIA, they may contact the appropriate Regional Inspector General for Audit, U.S. Department of Education.

relative enrollments in public and private nonprofit schools which desire that their children participate in Chapter 2 programs within the school districts of LEAs, adjusted by criteria approved by the Secretary of Education to provide higher per-child allocations only to those LEAs having the greatest number or percentage of children whose education imposes a higher than average cost per child. (34 CFR 297.8)

***Suggested Audit Procedure** (SEA)*

Determine if actual allocations made to LEAs adhere to these requirements.

Compliance Requirement

SEA may distribute funds only to LEAs that submit applications that (1) set forth the planned allocation of funds among targeted assistance programs described in section 1531 and describe the programs, projects, and activities designed to carry out such targeted assistance together with the reasons for the selection of such programs, projects, and activities; (2) set forth the allocation of funds for services to private schoolchildren; (3) describe how use of funds will contribute to improving student achievement or improving the quality of education for students; (4) provide assurances of compliance with Chapter 2 requirements; (5) agree to keep adequate records and provide information to SEA for fiscal audit and program evaluation; and (6) provide for systematic consultation with parents, teachers, administrative staff, and other groups identified by LEA. (Sec. 1533(a))

***Suggested Audit Procedures** (SEA)*

- Evaluate the adequacy of the policies and procedures used to ensure that all applications are properly reviewed for the criteria specified in the compliance requirement.
- Test a sample of applications and determine if they are complete.

Compliance Requirement

SEA may only use Chapter 2 funds reserved for the State's use as follows:

- Not more than 25 percent of the Chapter 2 funds reserved for the State's use in any fiscal year may be used for State administration of Chapter 2 programs.
- At least 20 percent of the Chapter 2 funds reserved for the State's use must be used for assistance to LEAs and statewide activities to carry out effective school programs, unless an SEA receives a waiver.
- Funds may be used for assistance to LEAs in the form of direct grants, statewide activities, or technical assistance to provide targeted assistance programs. (34 CFR 298.13)

***Suggested Audit Procedures** (SEA)*

- Verify that the funds were expended in accordance with the percentage requirements.
- Review internal controls designed to ensure expenditures are made only for allowable services.
- Test expenditure and related records to determine if expenditures were made only for allowable services in accordance with the preceding percentages.

Compliance Requirement

LEA may use Chapter 2 funds to support one or more of the targeted assistance programs in section 1531, namely, (1) programs for at-risk children; (2) programs to acquire and use instructional materials to improve the quality of instruction; (3) innovative programs for schoolwide improvements, including effective schools programs; (4) programs of training and professional development; (5) programs to enhance personal excellence of students and student achievement; and (6) other innovative projects to enhance the educational program and climate of the schools. (34 CFR 298.12)

***Suggested Audit Procedures** (LEA)*

- Review internal controls designed to ensure that LEA uses funds for targeted assistance programs.
- Determine if actual expenditures of funds are for targeted assistance programs and are in accordance with LEA's application.

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, and/or Earmarking Requirements

Compliance Requirements

The combined fiscal effort per child or the aggregate expenditures within the State for free public education for the preceding year must be

at least 90 percent of the combined fiscal effort per child or aggregate expenditures for the second preceding fiscal year, unless specifically waived by the Secretary of Education for 1 fiscal year only.

Expenditures to be considered are State and local expenditures for free public education. These expenditures include expenditures for administration, instruction, attendance, health services, pupil transportation, plant operation and maintenance, fixed charges, and net expenditures to cover deficits for food services and student activities. Expenditures not to be considered are any expenditures for community services, capital outlay, or debt service, and any expenditures of Federal funds. (34 CFR 298.21)

***Suggested Audit Procedures** (SEA and LEA)*

- Evaluate the adequacy of the policies and procedures used by SEA or LEA to ensure compliance with the maintenance of effort provisions.
- Determine if aggregate or per-child expenditures of non-Federal funds for free public education within the State during the preceding fiscal year are at least equal to 90 percent of the expenditures for the second preceding fiscal year.

D. Special Reporting Requirements

Compliance Requirement

SEA and LEA may use Chapter 2 funds only to supplement, and not supplant, non-Federal funds that would, in the absence of Chapter 2 funds, be made available. (34 CFR 298.23)

***Suggested Audit Procedures** (SEA and LEA)*

- Evaluate the adequacy of the policies and procedures established by SEA and LEA to ensure that Chapter 2 funds are used to supplement, and not supplant, non-Federal funds.
- Test the system to determine if the grantee used Federal funds to supplant non-Federal funds.

E. Special Tests and Provisions

Compliance Requirements

LEA shall provide children enrolled in private nonprofit elementary and secondary schools in the school district of LEA with secular, neutral, and nonideological services, materials, and equipment or other benefits that will ensure equitable (as compared with children enrolled in public schools) participation of private schoolchildren in the purposes and benefits of Chapter 2. If SEA conducts instructional or personnel training programs with funds reserved for the State's use, it must comply with these requirements as if it were an LEA.

If SEA or LEA provision of services and benefits to these children is prohibited by State law or if the Secretary of Education determines that SEA or LEA has substantially failed or is unwilling to provide for the participation on an equitable basis of children enrolled in private schools, the Secretary of Education waives the requirement and arranges for services to be provided through other means. (34 CFR 298.31–298.38)

***Suggested Audit Procedures** (LEA)*

- Evaluate the adequacy of the policies and procedures used by LEA for determining the numbers and needs of children in private schools to ensure that the services provided to children enrolled in private, nonprofit elementary and secondary schools are equitable to services provided to children enrolled in public schools.
- Determine whether LEA followed policies and procedures.

Compliance Requirements

A grantee or subgrantee must obligate Federal program funds during the period for which the funds were available for obligation and expenditure. In State-administered programs, grantees and subgrantees must obligate funds by the end of the fiscal year succeeding the fiscal year for which those funds are appropriated. (34 CFR 76.704–707)

- The grantee and subgrantee shall maintain and be able to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occurred outside of the period of availability, the funds are not time obligated and they shall be returned.
- If a grantee or subgrantee uses a different accounting system from 1 year to the next, it shall demonstrate that the system was not improperly changed to avoid lapsing funds.

- A grantee may not reallocate grant funds from one subgrantee to another subgrantee after the period of availability.
- A grantee or subgrantee may not make accounting adjustments after the period of availability to offset audit disallowances. The disallowed costs must be refunded.

Suggested Audit Procedures *(LEA and SEA)*

- Examine transactions recorded after the end of the period of availability and determine if the underlying obligation was recorded in the proper period.
- Test some transactions that were recorded within the period of availability and determine if the underlying obligations occurred within the period of availability.
- Examine the audited entity's reallocations of Federal funds to determine whether they occurred within the period of availability.

Part 4. APPENDICES

APPENDIX A

ADDED PROGRAMS, DELETED PROGRAMS, AND CHANGES IN PROGRAM NUMBERS

ADDED PROGRAMS

Department of Agriculture

10.560 State Administrative Expenses for Child Nutrition
10.561 FNS State Administrative Matching Grants for the Food Stamp Program
10.566 FNS Nutrition Assistance Program for Puerto Rico
10.568 Temporary Emergency Food Assistance Program

Department of Health and Human Services

13.658 Foster Care Title IV–E—Refugee and Entrant Assistance
13.787 Refugee and Entrant Assistance—State Administrative Programs
13.802 Social Security Disability Insurance, Title II and XVI

Department of Housing and Urban Development

14.220 Rehabilitation Loans
14.850 Public and Indian Housing
14.852 Public and Indian Housing—Comprehensive Improvement Assistance Program

Department of the Interior

15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining
15.252 Abandoned Mine Land Reclamation Program

Department of Justice

16.579 State and Local Narcotics Control Assistance

Department of Labor

17.500 Occupational Safety and Health Grants

Department of Transportation

20.218 Motor Carrier Safety Assistance Program

General Services Administration

39.003 Donation of Federal Surplus Property

Environmental Protection Agency

66.458 Capitalization Grants for State Revolving Funds

Department of Energy

—	Petrolcum Violation Escrow Funds
81.041	State Energy Conservation

Department of Education

84.002	Adult Education—State Administered Basic Grant Program
84.034	Title 1 Library Services and Construction Act
84.049	Title III–B Vocation Education, Consumer and Homemaking Education
84.126	Rehabilitation Services—Basic Support

DELETED PROGRAMS

Department of Health and Human Services

13.993	Primary Care Block Grant

Department of Labor

17.232	Comprehensive Employment and Training Program

Department of the Treasury

21.300	Revenue Sharing Program

Department of Education

84.050	Vocational Education—Program Improvement and Supportive Services
84.069	State Student Incentive Grant

CHANGES IN PROGRAM NUMBERS

Old	*New*	
13.646	13.790	Work Incentive Program WIN Demonstration Program
13.665	13.792	Community Services Block Grant
13.679	13.783	Child Support Enforcement
13.808	13.780	Family Support Payments to States—Assistance Payments
13.818	13.789	Low-Income Energy Assistance
14.146	14.156	Low-Income Housing Assistance
14.156	14.177	Section 8 Housing Voucher Program
14.158	14.852	Public and Indian Housing Comprehensive Improvement Assistance Program
20.102	20.106	Airport Improvement Program

APPENDIX B

UNIFORM ADMINISTRATIVE REQUIREMENTS COMMON RULE

Department of Agriculture	7 CFR 3016
Department of Energy	10 CFR Part 600
Small Business Administration	13 CFR Part 143
Department of Commerce	15 CFR Part 24
Department of State	22 CFR Part 135
Department of Housing and Urban Development	24 CFR Part 85
Department of Justice	28 CFR Part 66
Department of Labor	29 CFR Part 97
Federal Mediation and Conciliation Service	29 CFR Part 1470
Department of Defense	32 CFR Part 278
Department of Education	34 CFR Parts 74 and 80
National Archives and Records Administration	36 CFR Part 43
Department of Veterans Affairs	38 CFR Part 43
Environmental Protection Agency	40 CFR Part 31
Department of the Interior	43 CFR Part 12
Federal Emergency Management Agency	44 CFR Part 13
Department of Health and Human Services	45 CFR Part 92
National Science Foundation	45 CFR 602
National Foundation of the Arts and Humanities:	
National Endowment for the Arts	45 CFR Part 1157
National Endowment for the Humanities	45 CFR Part 1174
Institute of Museum Services	45 CFR Part 1183
ACTION	45 CFR Part 1234
Commission on the Bicentennial of the United States Constitution	45 CFR Part 2015
Department of Transportation	49 CFR Part 18

APPENDIX C

UNIFORM RELOCATION ASSISTANCE AND REAL PROPERTY ACQUISITION AGENCY RULES

Department of Agriculture ..... 7 CFR Part 21
Department of Energy ..... 10 CFR Part 1039
Department of Commerce ..... 13 CFR Part 310 and 15 CFR Parts 11 and 916
National Aeronautics and Space Administration ..... 14 CFR Part 1208
Department of Housing and Urban Development ..... 24 CFR Parts 42 and 43
Department of Labor ..... 29 CFR Part 12
Department of Defense ..... 32 CFR Parts 259, 641 and 742
Department of Education ..... 34 CFR Part 15
Pennsylvania Avenue Development Corporation ..... 36 CFR Part 904
Department of Veterans Affairs ..... 38 CFR Part 25
Environmental Protection Agency ..... 40 CFR Part 4
General Services Administration ..... 41 CFR Parts 101–6, 101–18 and 105–51
Department of the Interior ..... 41 CFR Part 114–50
Department of Justice ..... 41 CFR Part 128–18
Federal Emergency Management Agency ..... 44 CFR Part 25
Department of Health and Human Services ..... 44 CFR Part 15
Department of Transportation ..... 49 CFR Part 25

Part 5. SCHEDULES

Schedule 1. OIL OVERCHARGE FUNDS DISTRIBUTED TO STATES, TERRITORIES AND POSSESSIONS

State	"Warner" Amendment	All Other Schedule 3	MDL 378 Schedule 2	Exxon 03/06/86	Diamsham 07/18/86	OHA 2nd Stage	PODRA 1987–1990	Totals
Alabama	$2,966,399.98	$1,062,275.00	$20,908,964.68	$32,192,086.26	$747,244.28	$1,158,755.17	$3,002,045.01	$62,037,770.38
Alaska	796,599.78	590,900.00	5,272,177.86	8,272,460.20	188,409.65	—	2,338,002.50	17,458,549.99
American Samoa	34,599.91	80,025.00	242,680.07	371,351.96	8,664.93	—	282,886.66	1,020,208.53
Arizona	1,982,599.88	857,200.00	13,976,868.19	21,565,619.62	499,504.29	234,804.00	1,710,148.20	40,826,744.17
Arkansas	2,154,400.03	10,735.00	17,339,921.52	25,949,670.45	619,685.44	1,348,880.86	2,644,614.00	50,067,907.31
California	18,933,799.96	7,418,435.00	124,736,495.19	194,717,034.50	4,457,833.00	10,649,496.00	9,671,095.67	370,584,189.32
Colorado	2,065,199.88	315,300.00	14,650,916.66	22,715,884.22	523,588.00	1,050,453.55	5,993,429.59	47,314,771.90
Connecticut	3,295,799.96	648,408.25	23,140,143.50	34,900,268.97	826,974.39	810,113.00	4,128,396.47	67,750,104.54
Delaware	913,799.78	58,127.94	6,469,224.36	9,944,769.60	231,192.82	—	1,073,886.92	18,691,001.43
District of Columbia	466,399.97	69,954.04	3,254,903.73	4,603,515.75	116,321.59	240,488.55	1,209,771.19	9,961,354.82
Florida	9,114,999.77	2,738,708.75	62,955,398.24	98,114,523.64	2,249,898.65	2,252,034.23	2,643,857.47	180,069,420.76
Georgia	4,302,800.06	1,796,990.00	30,343,176.65	46,625,490.97	1,084,399.64	1,746,215.68	3,519,416.50	89,418,489.50
Guam	255,000.00	3,550.00	2,008,023.26	3,099,681.29	71,760.45	—	297,928.80	5,735,943.80
Hawaii	1,382,399.88	923,250.00	9,362,121.84	14,432,089.88	334,582.00	469.00	630,204.83	27,115,117.43
Idaho	788,400.00	350,575.00	5,592,275.68	8,690,739.43	199,849.34	160,986.53	2,638,053.67	18,420,879.65
Illinois	9,044,400.08	44,400.00	62,585,072.79	96,105,505.93	2,236,664.42	7,242,664.97	16,831,793.35	194,090,501.54
Indiana	4,728,599.97	20,554.18	33,563,455.39	51,631,387.53	1,199,486.30	3,746,912.35	8,103,445.58	102,993,841.29
Iowa	2,467,599.84	40,080.00	17,754,157.54	27,423,669.23	634,489.45	2,278,472.70	6,432,502.02	57,030,970.78
Kansas	2,110,600.06	14,425.00	15,274,843.95	23,958,453.17	545,885.98	1,878,785.00	3,337,025.78	47,120,018.94
Kentucky	2,572,800.01	1,076,193.06	17,466,326.63	27,438,633.15	624,210.92	338,471.00	5,382,480.15	54,899,114.92
Louisiana	5,944,199.98	73,023.99	32,410,421.52	51,536,267.21	1,158,276.56	981,497.00	2,148,266.83	94,251,953.09
Maine	1,451,999.88	370,485.30	10,016,756.57	15,094,373.28	357,971.90	123,858.50	4,234,304.59	31,649,750.02
Maryland	3,578,000.03	384,131.01	24,396,869.30	36,415,978.69	871,889.88	1,608,219.60	4,092,269.81	71,347,358.33
Massachusetts	6,682,600.04	1,081,424.44	46,644,912.88	70,340,939.14	1,666,990.31	1,709,169.47	9,049,856.33	137,175,892.60
Michigan	6,569,599.95	646,828.70	46,426,850.74	70,991,489.94	1,659,199.68	6,182,668.86	17,742,036.25	150,218,674.12
Minnesota	3,286,399.96	40,380.00	23,644,696.86	36,066,224.67	845,008.67	1,097,937.28	12,769,929.61	77,750,577.05
Mississippi	2,381,599.86	1,195,565.00	18,606,689.45	28,378,643.38	664,959.83	657,097.77	2,020,319.23	53,904,874.51
Missouri	3,735,599.93	93,180.00	26,903,772.70	41,516,281.45	961,487.36	2,692,881.83	7,309,645.46	83,212,848.73
Montana	868,599.95	81,875.00	6,167,326.33	9,584,665.67	220,400.56	135,051.00	3,007,056.62	20,064,975.13
Nebraska	1,378,800.08	35,925.00	10,048,045.43	15,504,944.23	359,095.61	719,429.21	3,456,546.86	31,502,786.42
Nevada	774,199.95	474,213.75	5,519,235.15	8,767,274.85	197,239.01	125,024.77	1,084,884.09	16,942,071.57
New Hampshire	891,400.10	32,575.00	6,350,556.31	9,797,563.77	226,948.85	145,668.89	2,381,859.83	19,826,572.76
New Jersey	7,503,399.88	1,105,374.93	50,299,411.43	75,432,931.59	1,797,597.66	1,200,471.53	8,259,068.47	145,598,255.49
New Mexico	1,195,199.93	499,000.00	8,925,771.40	13,692,730.49	318,982.16	204,050.82	2,209,154.98	27,044,889.78
New York	15,379,199.86	1,903,526.64	105,511,437.92	159,874,589.05	3,770,770.88	3,046,141.96	27,418,783.63	316,904,449.94
Northern Mariana Islands	17,799.95	—	125,526.47	192,061.70	4,478.08	—	280,094.73	619,960.93
North Carolina	4,315,000.06	8,890.11	30,582,715.07	47,029,796.82	1,092,960.29	1,309,607.30	4,980,870.35	89,319,839.99
North Dakota	698,199.88	—	4,994,275.31	7,721,443.24	178,475.44	822,702.31	3,195,707.92	17,610,804.10
Ohio	7,124,199.89	4,569,837.17	51,201,462.74	79,740,285.12	1,829,835.27	2,303,038.31	15,611,745.16	162,380,403.66
Oklahoma	2,367,599.86	—	16,828,766.60	26,234,258.14	601,420.23	2,922,417.00	3,160,678.11	52,115,139.94

Schedule 1. OIL OVERCHARGE FUNDS DISTRIBUTED TO STATES, TERRITORIES AND POSSESSIONS—Continued

State	"Warner" Amendment	All Other Schedule 3	MDL 378 Schedule 2	Exxon 03/06/86	Diamsham 07/18/86	OHA 2nd Stage	PODRA 1987–1990	Totals
Oregon	1,964,199.88	1,061,375.00	13,506,514.55	20,721,692.22	482,689.24	—	3,740,995.51	41,477,466.40
Pennsylvania	9,175,403.07	1,658,786.94	63,442,536.36	96,803,642.42	2,267,308.05	4,957,454.71	17,810,746.67	196,115,878.22
Puerto Rico	2,025,400.00	5,995,257.00	12,980,698.07	20,053,948.64	463,903.05	9,718.17	851,936.00	42,380,860.93
Rhode Island	767,199.95	72,675.14	5,402,460.86	8,005,286.31	193,063.21	318,276.49	1,870,402.41	16,629,364.37
South Carolina	2,339,199.86	60,900.00	16,244,681.54	25,187,596.62	580,551.64	888,480.29	2,208,173.53	47,509,583.48
South Dakota	668,800.12	175.00	4,872,070.63	7,501,993.25	174,110.57	569,666.46	2,848,893.57	16,635,709.60
Tennessee	3,174,599.82	164,645.00	22,047,053.46	34,603,233.87	787,911.92	1,608,398.88	5,150,718.99	67,536,561.94
Texas	17,091,199.91	787,026.98	100,526,092.24	157,187,086.87	3,592,604.07	7,555,442.15	6,246,425.94	292,985,878.16
Trust Territories	—	—	—	—	—	—	79,600.00	79,600.00
Utah	1,124,199.93	420,025.00	8,038,575.46	12,454,477.95	287,272.96	671,000.00	2,697,573.83	25,693,125.12
Vermont	457,999.97	16,093.52	3,261,181.72	5,005,193.65	116,540.46	110,683.00	1,963,546.19	10,931,238.51
Virgin Islands	1,193,000.00	—	6,303,110.12	9,951,205.30	225,258.71	80.64	299,479.44	17,972,134.20
Virginia	5,080,600.01	306,094.06	34,970,102.09	53,376,861.04	1,249,754.69	628,240.21	5,249,617.78	100,861,269.88
Washington	3,118,999.82	1,423,352.50	20,808,336.69	32,121,634.15	743,642.53	979,794.63	5,718,778.05	64,914,538.36
West Virginia	1,169,999.93	43,333.10	8,143,424.90	12,902,924.70	291,025.58	329,963.59	3,702,647.25	26,583,319.05
Wisconsin	3,344,399.96	9,720.00	23,974,390.82	36,966,568.55	856,791.30	2,050,853.50	10,479,971.37	77,682,695.49
Wyoming	783,999.95	110,050.00	5,556,444.41	8,874,385.60	198,568.80	127,677.00	1,479,493.27	17,130,619.03
Other Payments	—	—	—	—	—	81,437.00	79,600.00	81,437.00
Totals	200,000,000.00	42,845,831.50	1,362,580,321.85	2,098,433,309.32	48,695,630.57	84,012,102.72	288,683,062.99	4,125,250,258.92

Schedule 2. SUMMARY OF ALL FUNDS DISTRIBUTED TO ALL JURISDICTIONS IN MDL 378

State	Allocation Ratio	Total OHA	Total Bank IV	Total MDL 378
Alabama	0.01534512450	$9,130,323.14	$11,778,641.54	$20,908,964.68
Alaska	0.00386926023	2,302,203.31	2,969,974.55	5,272,177.86
American Samoa	0.00017810331	105,971.17	136,708.90	242,680.07
Arizona	0.01025764719	6,103,282.72	7,873,585.46	13,976,868.19
Arkansas	0.01272579770	7,571,828.12	9,768 093.40	17,339,921.52
California	0.09154432453	54,468,718.38	70,267,776.81	124,736,495.19
Colorado	0.01075233249	6,397,619.65	8,253,297.01	14,650,916.66
Connecticut	0.01698259040	10,104,612.59	13,035,530.91	23,140,143.50
Delaware	0.00474777469	2,824,917.92	3,644,306.45	6,469,224.36
District of Columbia	0.00238877935	1,421,319.68	1,833,584.06	3,254,903.73
Florida	0.04620307312	27,490,750.42	35,464,647.82	62,955,398.24
Georgia	0.02226890861	13,249,962.98	17,093,213.68	30,343,176.65
Guam	0.00147369165	876,844.05	1,131,179.21	2,008,023.26
Hawaii	0.00687087703	4,088,160.22	5,273,961.61	9,362,121.84
Idaho	0.00410418057	2,441,980.50	3,150,295.18	5,592,275.68
Illinois	0.04593129065	27,329,040.31	35,256,032.48	62,585,072.79
Indiana	0.02463227660	14,656,162.96	18,907,292.43	33,563,455.39
Iowa	0.01302980621	7,752,712.68	10,001,444.86	17,754,157.54
Kansas	0.01121023378	6,670,070.16	8,604,773.80	15,274,843.95
Kentucky	0.01281856663	7,627,025.47	9,839,301.16	17,466,326.63
Louisiana	0.02378606310	14,152,667.35	18,257,754.18	32,410,421.52
Maine	0.00735131456	4,374,019.75	5,642,736.82	10,016,756.57
Maryland	0.01790490359	10,653,387.38	13,743,481.93	24,396,869.30
Massachusetts	0.03423278036	20,368,446.46	26,276,466.42	46,644,912.88
Michigan	0.03407274419	20,273,225.20	26,153,625.54	46,426,850.74
Minnesota	0.01735288297	10,324,936.04	13,319,760.82	23,644,696.86
Mississippi	0.01365548081	8,124,988.01	10,481,701.43	18,606,689.45
Missouri	0.01974472423	11,748,077.55	15,155,695.15	26,903,772.70
Montana	0.00452621123	2,693,088.02	3,474,238.32	6,167,326.33
Nebraska	0.00737427752	4,387,632.66	5,660,362.78	10,048,045.43
Nevada	0.00405057600	2,410,085.88	3,109,149.27	5,519,235.15
New Hampshire	0.00466068401	2,773,099.11	3,577,457.21	6,350,556.31
New Jersey	0.03691482302	21,964,257.31	28,335,154.12	50,299,411.43
New Mexico	0.00655063871	3,897,618.96	5,028,152.44	8,925,771.40
New York	0.07743502253	46,073,707.54	59,437,730.38	105,511,437.92
Northern Mariana Islands	0.00009212409	54,813.68	70,712.79	125,526.47
North Carolina	0.02244470625	13,354,562.29	17,228,152.78	30,582,715.07
North Dakota	0.00366530709	2,180,851.52	2,813,423.79	4,994,275.31
Ohio	0.03757684000	22,358,156.29	28,843,306.45	51,201,462.74
Oklahoma	0.01235066023	7,348,621.97	9,480,144.63	16,828,766.60

Schedule 2. SUMMARY OF ALL FUNDS DISTRIBUTED TO ALL JURISDICTIONS IN MDL 378—Continued

State	Allocation Ratio	Total OHA	Total Bank IV	Total MDL 378
Oregon	0.00991245384	5,897,893.28	7,608,621.27	13,506,514.55
Pennsylvania	0.04656058461	27,703,469.16	35,739,067.21	63,442,536.36
Puerto Rico	0.00952655624	5,668,284.86	7,312,413.21	12,980,698.07
Rhode Island	0.00396487514	2,359,094.02	3,043,366.84	5,402,460.86
South Carolina	0.01192199923	7,093,569.39	9,151,112.15	16,244,681.54
South Dakota	0.00357562087	2,127,488.37	2,744,582.26	4,872,070.63
Tennessee	0.01618036977	9,627,292.68	12,419,760.78	22,047,053.46
Texas	0.07377626891	43,896,765.31	56,629,336.92	100,526,092.24
Utah	0.00589952410	3,510,206.87	4,528,368.59	8,038,575.46
Vermont	0.00239338678	1,424,061.09	1,837,120.64	3,261,181.72
Virgin Islands	0.00462586316	2,752,380.77	3,550,729.34	6,303,110.12
Virginia	0.02566461699	15,270,403.75	19,699,698.34	34,970,102.09
Washington	0.01527127344	9,086,381.89	11,721,954.80	20,808,336.69
West Virginia	0.00597647330	3,555,991.50	4,587,433.40	8,143,424.90
Wisconsin	0.01759484593	10,468,903.59	13,505,487.23	23,974,390.82
Wyoming	0.00407788395	2,426,334.05	3,130,110.36	5,556,444.41
Totals	1.00000000000	594,998,309.96	767,582,011.89	1,362,580,321.85

Schedule 2A. SUMMARY OF FUNDS DISTRIBUTED TO ALL JURISDICTIONS IN MDL 378 BY BANK IV, WICHITA

State	Initial MDL Escrow 08/07/86	3rd Distribution 11/28/86	11/86 Set Aside 06/30/87	5th Distribution 07/30/87	6th Distribution 10/29/87	7th Distribution 11/03/88	9th Distribution 06/25/89	11th Distribution 10/19/89	Total Distribution by Bank IV
Alabama	$10,373,160.34	$425,976.36	$297,765.46	$113,890.94	$142,056.47	$198,552.75	$70,712.67	$156,526.54	$11,778,641.54
Alaska	2,615,583.65	107,409.58	75,081.31	28,717.50	35,819.42	50,064.91	17,830.14	39,468.03	2,969,974.55
American Samoa	120,396.17	4,944.10	3,456.02	1,321.88	1,648.78	2,304.50	820.73	1,816.73	136,708.90
Arizona	6,934,073.36	284,749.42	199,045.18	76,131.87	94,959.49	132,725.15	47,268.80	104,632.19	7,873,585.46
Arkansas	8,602,519.98	353,264.58	246,938.57	94,450.40	117,808.22	164,660.90	58,642.42	129,808.33	9,768,093.40
California	61,883,105.41	2,541,244.84	1,776,377.79	679,438.56	847,465.48	1,184,505.02	421,850.21	933,789.50	70,267,776.81
Colorado	7,268,475.99	298,481.74	208,644.33	79,803.41	99,539.00	139,125.96	49,548.39	109,678.18	8,253,297.01
Connecticut	11,480,071.95	471,431.96	329,539.78	126,044.15	157,215.20	219,740.15	78,258.37	173,229.36	13,035,530.91
Delaware	3,209,451.19	131,796.90	92,128.50	35,237.81	43,952.21	61,432.13	21,878.47	48,429.24	3,644,306.45
District of Columbia	1,614,792.45	66,311.85	46,353.22	17,729.43	22,113.97	30,908.76	11,007.86	24,366.52	1,833,584.06
Florida	31,232,844.40	1,282,584.39	896,550.53	342,917.48	427,721.87	597,828.12	212,910.81	471,290.21	35,464,647.82
Georgia	15,053,573.51	618,178.67	432,118.48	165,279.01	206,152.94	288,140.57	102,618.53	227,151.96	17,093,213.68
Guam	996,201.74	40,909.27	28,596.35	10,937.68	13,642.60	19,068.31	6,791.00	15,032.26	1,131,179.21
Hawaii	4,644,648.48	190,733.62	133,326.38	50,995.39	63,606.69	88,903.25	31,662.05	70,085.75	5,273,961.61
Idaho	2,774,387.60	113,930.90	79,639.84	30,461.07	37,994.18	53,104.58	18,912.69	41,864.32	3,150,295.18
Illinois	31,049,122.00	1,275,039.78	891,276.71	340,900.32	425,205.86	594,311.49	211,658.39	468,517.92	35,256,032.48
Indiana	16,651,188.12	683,785.11	477,978.61	182,819.84	228,031.66	318,720.53	113,509.29	251,259.28	18,907,292.43
Iowa	8,808,026.88	361,703.78	252,837.72	96,706.74	120,622.56	168,594.51	60,043.33	132,909.34	10,001,444.86
Kansas	7,578,012.97	311,192.95	217,529.71	83,201.94	103,777.99	145,050.81	51,658.47	114,348.96	8,604,773.80
Kentucky	8,665,230.90	355,839.82	248,738.71	95,138.92	118,667.03	165,861.25	59,069.91	130,754.61	9,839,301.16
Louisiana	16,079,155.73	660,294.46	461,558.21	176,539.27	220,197.89	307,771.25	109,609.81	242,627.56	18,257,754.18
Maine	4,969,419.74	204,070.44	142,649.06	54,561.18	68,054.30	95,119.70	33,875.98	74,986.41	5,642,736.82
Maryland	12,103,547.02	497,035.12	347,436.86	132,889.53	165,753.45	231,674.09	82,508.53	182,637.33	13,743,481.93
Massachusetts	23,141,038.69	950,292.41	664,272.21	254,074.42	316,907.68	442,942.81	157,749.87	349,188.34	26,276,466.42
Michigan	23,032,855.74	945,849.85	661,166.78	252,886.63	315,426.16	440,872.08	157,012.40	347,555.91	26,153,625.54
Minnesota	11,730,386.25	481,711.18	336,725.14	128,792.45	160,643.16	224,531.42	79,964.73	177,006.49	13,319,760.82
Mississippi	9,230,977.05	379,072.33	264,978.66	101,350.47	126,414.70	176,690.21	62,926.54	139,291.48	10,481,701.43
Missouri	13,347,248.53	548,108.02	383,137.78	146,544.61	182,785.47	255,479.79	90,986.70	201,404.25	15,155,695.15
Montana	3,059,676.37	125,646.36	87,829.16	33,593.37	41,901.10	58,565.29	20,857.47	46,169.20	3,474,238.32
Nebraska	4,984,942.49	204,707.88	143,094.65	54,731.61	68,266.88	95,416.82	33,981.80	75,220.64	5,660,362.78
Nevada	2,738,151.41	112,442.86	78,599.67	30,063.22	37,497.94	52,410.98	18,665.67	41,317.53	3,109,149.27
New Hampshire	3,150,578.71	129,379.28	90,438.55	34,591.42	43,145.97	60,305.25	21,477.14	47,540.88	3,577,457.21
New Jersey	24,954,074.39	1,024,745.16	716,316.08	273,980.44	341,736.51	477,646.14	170,109.13	376,546.27	28,335,154.12
New Mexico	4,428,170.37	181,843.90	127,112.29	48,618.60	60,642.10	84,759.64	30,186.34	66,819.19	5,028,152.44
New York	52,345,349.49	2,149,574.57	1,502,592.92	574,719.85	716,849.56	1,001,942.75	356,832.39	789,868.85	59,437,730.38
Northern Mariana Islands	62,275.02	2,557.34	1,787.63	683.74	852.83	1,192.01	424.52	939.70	70,712.79
North Carolina	15,172,411.07	623,058.77	435,529.76	166,583.77	207,780.37	290,415.24	103,428.63	228,945.17	17,228,152.78
North Dakota	2,477,713.24	101,747.90	71,123.69	27,203.77	33,931.34	47,425.93	16,890.29	37,387.63	2,813,423.79
Ohio	25,401,591.66	1,043,122.57	729,162.23	278,893.90	347,865.09	486,212.07	173,159.81	383,299.11	28,843,306.45

Schdeule 2A. SUMMARY OF FUNDS DISTRIBUTED TO ALL JURISDICTIONS IN MDL 378 BY BANK IV, WICHITA—Continued

State	Initial MDL Escrow 08/07/86	3rd Distribution 11/28/86	11/86 Set Aside 06/30/87	5th Distribution 07/30/87	6th Distribution 10/29/87	7th Distribution 11/03/88	9th Distribution 06/25/89	11th Distribution 10/19/89	Total Distribution by Bank IV
Oklahoma	8,348,930.56	342,850.87	239,659.19	91,666.14	114,335.41	159,806.95	56,913.73	125,981.78	9,480,144.63
Oregon	6,700,725.89	275,166.95	192,346.85	73,569.86	91,763.88	128,258.65	45,678.10	101,111.08	7,608,621.27
Pennsylvania	31,474,518.82	1,292,508.80	903,487.89	345,570.92	431,031.51	602,454.02	214,558.27	474,936.98	35,739,067.21
Puerto Rico	6,439,862.74	264,454.54	184,858.68	70,705.74	88,191.46	123,265.46	43,899.82	97,174.76	7,312,413.21
Rhode Island	2,680,218.44	110,063.82	76,936.68	29,427.16	36,704.57	51,302.08	18,270.75	40,443.35	3,043,366.84
South Carolina	8,059,159.74	330,951.36	231,341.21	88,484.63	110,367.11	154,260.44	54,938.39	121,609.26	9,151,112.15
South Dakota	2,417,086.20	99,258.24	69,383.37	26,538.12	33,101.07	46,265.47	16,477.01	36,472.79	2,744,582.26
Tennessee	10,937,778.32	449,162.54	313,973.04	120,090.10	149,788.69	209,360.10	74,561.61	165,046.38	12,419,760.78
Texas	49,872,066.34	2,048,008.59	1,431,596.40	547,564.71	682,978.89	954,601.62	339,972.30	752,548.07	56,629,336.92
Utah	3,988,023.00	163,769.14	114,477.70	43,786.05	54,614.45	76,334.78	27,185.91	60,177.56	4,528,368.59
Vermont	1,617,907.03	66,439.75	46,442.63	17,763.63	22,156.62	30,968.37	11,029.09	24,413.52	1,837,120.64
Virgin Islands	3,127,040.14	128,412.67	89,762.86	34,332.98	42,823.62	59,854.70	21,316.68	47,185.69	3,550,729.34
Virginia	17,349,040.55	712,442.59	498,010.73	190,481.83	237,588.48	332,078.12	118,266.47	261,789.57	19,699,698.34
Washington	10,323,237.72	423,926.28	296,332.42	113,342.82	141,372.80	197,597.18	70,372.36	155,773.23	11,721,954.80
West Virginia	4,040,039.94	165,905.23	115,970.86	44,357.16	55,326.80	77,330.44	27,540.50	60,962.47	4,587,433.40
Wisconsin	11,893,950.95	488,428.00	341,420.33	130,588.29	162,883.11	227,662.21	81,079.73	179,474.61	13,505,487.23
Wyoming	2,756,611.33	113,200.92	79,129.56	30,265.90	37,750.74	52,764.32	18,791.51	41,596.08	3,130,110.36
Totals	675,990,627.80	27,759,720.28	19,404,564.94	7,421,962.65	9,257,433.34	12,939,142.02	4,608,152.51	10,200,408.39	767,582,011.89

Schedule 2B. SUMMARY OF FUNDS DISTRIBUTED TO ALL JURISDICTIONS IN MDL 378 BY OFFICE OF HEARINGS AND APPEALS

State	Initial OHA 08/07/86	Second OHA 04/23/87	Third OHA 10/16/87	Fourth OHA 02/25/88	Fifth OHA 04/07/88	Sixth OHA 02/23/89	Seventh OHA 03/06/89	Eighth OHA 04/06/89	Ninth OHA 08/24/89	Tenth OHA 04/26/90	Total Distribution by OHA
Alabama	$783,831.01	$1,217,193.33	$188,131.23	$640,459.46	$1,061,882.62	$285,419.32	$227,107.84	$1,242,955.08	$1,565,202.70	$1,918,140.56	9,130,323.14
Alaska	197,642.33	306,914.27	47,437.13	161,491.31	267,752.81	71,968.24	57,265.06	313,410.08	394,664.55	483,657.53	2,302,203.31
Am. Samoa	9,097.54	14,127.36	2,183.55	7,433.50	12,324.75	3,312.72	2,635.93	14,426.37	18,166.53	22,262.92	105,971.17
Arizona	523,961.99	813,648.64	125,758.75	428,123.42	709,829.19	190,792.24	151,813.17	830,869.42	1,046,280.01	1,282,205.89	6,103,282.72
Arkansas	650,035.44	1,009,425.25	156,018.28	531,136.62	880,625.20	236,699.84	188,341.81	1,030,789.61	1,298,031.36	1,590,724.71	7,571,828.12
California	4,676,096.30	7,261,403.54	1,122,333.42	3,820,785.47	6,334,867.26	1,702,724.44	1,354,856.00	7,415,090.29	9,337,521.10	11,443,040.57	54,468,718.38
Colorado	549,230.58	852,887.66	131,823.60	448,770.10	744,061.41	199,993.38	159,134.52	870,938.93	1,096,737.91	1,344,041.56	6,397,619.65
Connecticut	867,472.98	1,347,079.05	208,206.56	708,802.38	1,175,195.26	315,876.18	251,342.34	1,375,589.82	1,732,224.22	2,122,823.80	10,104,612.59
Delaware	242,516.96	376,599.07	58,207.72	198,157.87	328,546.01	88,308.61	70,267.06	384,569.75	484,273.02	593,471.84	2,824,917.92
Dist. of Col.	122,019.17	189,480.79	29,286.43	99,700.48	165,303.53	44,431.30	35,353.94	193,491.13	243,655.50	298,597.41	1,421,319.68
Florida	2,360,059.13	3,664,882.12	566,449.68	1,928,377.66	3,197,252.66	859,377.16	683,805.48	3,742,448.92	4,712,713.46	5,775,384.14	27,490,750.42
Georgia	1,137,498.82	1,766,396.03	273,016.82	929,437.44	1,541,008.48	414,201.70	329,579.84	1,803,781.60	2,271,428.67	2,783,613.58	13,249,962.98
Guam	75,276.37	116,894.96	18,067.46	61,507.47	101,979.46	27,410.66	21,810.64	119,369.02	150,316.55	184,211.46	876,844.05
Hawaii	350,965.31	545,006.05	84,236.95	286,709.79	475,464.69	127,798.31	101,688.98	556,541.04	700,829.46	858,859.63	4,088,160.22
Idaho	209,642.09	325,548.43	50,317.25	171,296.18	284,009.30	76,337.76	60,741.87	332,438.63	418,626.42	513,022.57	2,441,980.50
Illinois	2,346,176.45	3,643,324.02	563,117.62	1,917,034.28	3,178,445.31	854,322.01	679,783.10	3,720,434.54	4,684,991.65	5,741,411.33	27,329,040.31
Indiana	1,258,219.97	1,953,861.16	301,991.71	1,028,077.33	1,704,553.54	458,160.34	364,557.70	1,995,214.40	2,512,492.22	3,079,034.57	14,656,162.96
Iowa	665,564.24	1,033,539.56	159,745.42	543,825.02	901,662.59	242,354.40	192,841.13	1,055,414.30	1,329,040.24	1,628,725.78	7,752,712.68
Kansas	572,620.24	889,208.93	137,437.47	467,881.53	775,748.18	208,510.35	165,911.46	908,028.94	1,143,443.85	1,401,279.22	6,670,070.16
Kentucky	654,774.09	1,016,783.79	157,155.63	535,008.52	887,044.81	238,425.34	189,714.78	1,038,303.90	1,307,493.79	1,602,320.83	7,627,025.47
Louisiana	1,214,995.27	1,886,738.51	291,617.13	992,758.92	1,645,995.57	442,420.77	352,033.73	1,926,671.11	2,426,178.44	2,973,257.89	14,152,667.35
Maine	375,506.13	583,114.92	90,127.12	306,821.82	508,710.97	136,734.45	108,799.46	595,456.48	749,834.09	918,914.32	4,374,019.75
Maryland	914,584.86	1,420,238.02	219,514.12	747,296.96	1,239,019.33	333,031.21	264,992.57	1,450,297.19	1,826,300.17	2,238,112.95	10,653,387.38
Mass.	1,748,614.98	2,715,384.42	419,693.89	1,428,773.55	2,368,908.40	636,729.71	506,645.15	2,772,855.21	3,491,743.59	4,279,097.55	20,368,446.46
Michigan	1,740,440.32	2,702,690.16	417,731.84	1,422,094.12	2,357,833.90	633,753.04	504,276.61	2,759,892.28	3,475,419.91	4,259,093.02	20,273,225.20
Minnesota	886,387.58	1,376,451.10	212,746.35	724,257.28	1,200,819.50	322,763.62	256,822.67	1,405,583.52	1,769,994.06	2,169,110.37	10,324,936.04
Mississippi	697,523.78	1,083,168.81	167,416.19	569,938.80	944,959.27	253,991.94	202,101.12	1,106,093.95	1,392,859.04	1,706,935.11	8,124,988.01
Missouri	1,008,563.15	1,566,174.76	242,070.32	824,085.56	1,366,334.92	367,251.87	292,221.92	1,599,322.66	2,013,961.87	2,468,090.53	11,748,077.55
Montana	231,199.47	359,024.40	55,491.35	188,910.48	313,213.82	84,187.53	66,987.92	366,623.11	461,673.54	565,776.40	2,693,088.02
Nebraska	376,679.08	584,936.37	90,408.64	307,780.22	510,300.00	137,161.56	109,139.31	597,316.48	752,176.30	921,784.69	4,387,682.66
Nevada	206,903.96	321,296.45	49,660.06	169,058.89	280,299.86	75,340.71	59,948.53	328,096.66	413,158.75	506,322.00	2,410,085.88
New Hamp.	238,068.36	369,690.94	57,139.99	194,522.97	322,519.33	86,688.72	68,978.12	377,515.40	475,389.77	582,585.50	2,773,099.11
New Jersey	1,885,614.08	2,928,127.20	452,575.73	1,540,713.97	2,554,505.75	686,615.71	546,339.39	2,990,100.66	3,765,311.95	4,614,352.88	21,964,257.31
New Mexico	334,607.50	519,604.37	80,310.83	273,404.01	453,304.20	121,841.88	96,949.45	530,601.74	668,165.15	818,829.84	3,897,618.96
New York	3,955,391.27	6,142,237.10	949,353.38	3,231,905.54	5,358,503.56	1,440,291.42	1,146,038.33	6,272,236.82	7,898,372.30	9,679,377.82	46,073,707.54
N. Mariana Is.	4,705.71	7,307.39	1,129.44	3,844.98	6,374.99	1,713.51	1,363.44	7,462.05	9,396.66	11,515.51	54,813.68
N. Carolina	1,146,478.59	1,780,340.51	275,172.10	936,774.70	1,553,173.67	417,471.54	332,181.65	1,818,021.21	2,289,360.04	2,805,588.28	13,354,562.29
North Dakota	187,224.37	290,736.47	44,936.66	152,978.92	253,639.25	68,174.71	54,246.54	296,889.87	373,861.32	458,163.39	2,180,851.52
Ohio	1,919,430.00	2,980,639.16	460,692.06	1,568,344.57	2,600,317.33	698,929.22	556,137.23	3,043,724.04	3,832,837.68	4,697,105.00	22,358,156.29
Oklahoma	630,873.37	979,668.90	151,419.09	515,479.51	854,665.69	229,722.28	182,789.77	1,000,403.48	1,259,767.35	1,543,832.53	7,348,621.97

Schedule 2B. SUMMARY OF FUNDS DISTRIBUTED TO ALL JURISDICTIONS IN MDL 378 BY OFFICE OF HEARINGS AND APPEALS—Continued

State	Initial OHA 08/07/86	Second OHA 04/23/87	Third OHA 10/16/87	Fourth OHA 02/25/88	Fifth OHA 04/07/88	Sixth OHA 02/23/89	Seventh OHA 03/06/89	Eighth OHA 04/06/89	Ninth OHA 08/24/89	Tenth OHA 04/26/90	Total Distribution by OHA
Oregon	506,329.46	786,267.50	121,526.68	413,716.09	685,941.81	184,371.64	146,704.32	802,908.76	1,011,070.29	1,239,056.73	5,897,893.28
Pennsylvania	2,378,320.87	3,693,240.36	570,832.77	1,943,299.12	3,221,992.46	866,026.87	689,096.65	3,771,407.35	4,749,179.63	5,820,073.08	27,703,469.16
Puerto Rico	486,617.76	755,657.65	116,795.58	397,609.88	659,237.69	177,193.95	140,993.03	771,651.06	971,708.74	1,190,819.53	5,668,284.86
Rhode Island	202,526.35	314,498.56	48,609.37	165,481.99	274,369.36	73,746.68	58,680.16	321,154.89	404,417.27	495,609.39	2,359,094.02
S. Carolina	608,977.31	945,667.01	146,163.71	497,588.48	825,002.35	221,749.19	176,445.59	965,681.94	1,216,043.92	1,490,249.90	7,093,569.39
South Dakota	182,643.19	283,622.45	43,837.11	149,235.69	247,432.96	66,506.55	52,919.19	289,625.29	364,713.32	446,952.61	2,127,488.37
Tennessee	826,495.44	1,283,445.97	198,371.33	675,320.09	1,119,681.59	300,954.88	239,469.48	1,310,609.95	1,650,397.72	2,022,546.22	9,627,292.68
Texas	3,768,501.65	5,852,020.46	904,497.06	3,079,200.14	5,105,317.81	1,372,238.60	1,091,888.78	5,975,877.78	7,525,179.43	9,222,033.61	43,896,755.31
Utah	301,348.48	467,957.19	72,328.17	246,228.44	408,247.07	109,731.15	87,312.96	477,861.45	601,751.46	737,440.51	3,510,206.87
Vermont	122,254.52	189,846.26	29,342.92	99,892.78	165,622.37	44,516.99	35,422.13	193,864.33	244,125.45	299,173.34	1,424,061.09
Virgin Islands	236,289.71	366,928.91	56,713.08	193,069.65	320,109.73	86,041.05	68,462.78	374,694.92	471,838.04	578,232.90	2,752,380.77
Virginia	1,310,952.06	2,035,747.62	314,648.20	1,071,164.12	1,775,991.50	477,361.88	379,836.33	2,078,833.98	2,617,790.94	3,208,077.13	15,270,403.75
Washington	780,058.68	1,211,335.38	187,225.81	637,377.14	1,056,772.12	284,045.69	226,014.85	1,236,973.15	1,557,669.89	1,908,909.18	9,086,381.89
West Virginia	305,279.05	474,060.89	73,271.56	249,440.07	413,571.95	111,162.40	88,451.80	484,094.34	609,600.27	747,059.16	3,555,991.50
Wisconsin	898,747.08	1,395,643.88	215,712.81	734,356.06	1,217,563.34	327,264.13	260,403.72	1,425,182.52	1,794,674.28	2,199,355.74	10,468,903.59
Wyoming	208,298.86	323,462.55	49,994.86	170,196.64	282,189.57	75,848.64	60,352.68	330,308.60	415,944.16	509,735.49	2,426,334.05
Totals	51,080,133.31	79,321,176.65	12,260,000.00	41,737,000.00	69,200,000.00	18,600,000.00	14,800,000.00	81,000,000.00	102,000,000.00	125,000,000.00	594,998,309.96

Schedule 3. SUMMARY OF FUNDS DISTRIBUTED OR ALLOCATED TO STATES, TERRITORIES AND POSSESSIONS—ALL OTHER

State	CORCO 01/08/81	Chevron 10/26/81	Sohio 11/02/82	U.S.A. 11/04/82	Imperial 11/24/82	Site/Flash 01/07/83	Total
Alabama	—	$1,051,175.00	—	—	$11,100.00	—	$1,062,275.00
Alaska	—	590,900.00	—	—	—	—	590,900.00
American Samoa	—	80,025.00	—	—	—	—	80,025.00
Arizona	—	857,200.00	—	—	—	—	857,200.00
Arkansas	—	175.00	—	—	10,560.00	—	10,735.00
California	—	6,642,275.00	—	$776,160.00	—	—	7,418,435.00
Colorado	—	306,300.00	—	—	—	$9,000.00	315,300.00
Connecticut	—	503,700.00	$144,708.25	—	—	—	648,408.25
Delaware	—	22,175.00	35,952.94	—	—	—	58,127.94
District of Columbia	—	36,400.00	33,554.04	—	—	—	69,954.04
Florida	—	2,473,450.00	—	64,198.75	196,560.00	4,500.00	2,738,708.75
Georgia	—	1,778,450.00	—	—	18,540.00	—	1,796,990.00
Guam	—	3,550.00	—	—	—	—	3,550.00
Hawaii	—	923,250.00	—	—	—	—	923,250.00
Idaho	—	350,575.00	—	—	—	—	350,575.00
Illinois	—	—	—	—	39,900.00	4,500.00	44,400.00
Indiana	—	12,975.00	4,159.18	—	3,420.00	—	20,554.18
Iowa	—	—	—	—	31,080.00	9,000.00	40,080.00
Kansas	—	1,525.00	—	—	3,900.00	9,000.00	14,425.00
Kentucky	—	1,063,450.00	4,583.06	—	8,160.00	—	1,076,193.06
Louisiana	—	43,375.00	7,088.99	—	60.00	22,500.00	73,023.99
Maine	—	166,425.00	204,060.30	—	—	—	370,485.30
Maryland	—	52,225.00	331,906.01	—	—	—	384,131.01
Massachusetts	—	341,100.00	740,324.44	—	—	—	1,081,424.44
Michigan	—	4,550.00	642,278.70	—	—	—	646,828.70
Minnesota	—	—	—	—	40,380.00	—	40,380.00
Mississippi	—	807,725.00	—	—	9,840.00	378,000.00	1,195,565.00
Missouri	—	—	—	—	93,180.00	—	93,180.00
Montana	—	81,875.00	—	—	—	—	81,875.00
Nebraska	—	28,425.00	—	—	7,500.00	—	35,925.00
Nevada	—	425,800.00	—	48,413.75	—	—	474,213.75
New Hampshire	—	32,575.00	—	—	—	—	32,575.00
New Jersey	—	709,475.00	395,899.93	—	—	—	1,105,374.93
New Mexico	—	499,000.00	—	—	—	—	499,000.00
New York	—	881,675.00	1,021,851.64	—	—	—	1,903,526.64
Northern Mariana Islands	—	—	—	—	—	—	—
North Carolina	—	150.00	8,740.11	—	—	—	8,890.11
North Dakota	—	—	—	—	—	—	—
Ohio	—	33,525.00	4,427,832.17	—	108,480.00	—	4,569,837.17
Oklahoma	—	—	—	—	—	—	—

Schdule 3. SUMMARY OF FUNDS DISTRIBUTED OR ALLOCATED TO STATES, TERRITORIES AND POSSESSIONS—ALL OTHER—Continued

State	CORCO 01/08/81	Chevron 10/26/81	Sohio 11/02/82	U.S.A. 11/04/82	Imperial 11/24/82	Site/Flash 01/07/83	Total
Oregon	—	1,061,375.00	—	—	—	—	1,061,375.00
Pennsylvania	—	242,100.00	1,416,686.94	—	—	—	1,658,786.94
Puerto Rico	$5,833,332.00	161,925.00	—	—	—	—	5,995,257.00
Rhode Island	—	—	72,675.14	—	—	—	72,675.14
South Carolina	—	60,900.00	—	—	—	—	60,900.00
South Dakota	—	175.00	—	—	—	—	175.00
Tennessee	—	157,025.00	—	—	7,620.00	—	164,645.00
Texas	—	617,275.00	156,251.98	—	—	13,500.00	787,026.98
Utah	—	420,025.00	—	—	—	—	420,025.00
Vermont	—	10,300.00	5,793.52	—	—	—	16,093.52
Virgin Islands	—	—	—	—	—	—	—
Virginia	—	1,725.00	304,369.06	—	—	—	306,094.06
Washington	—	1,349,625.00	—	73,727.50	—	—	1,423,352.50
West Virginia	—	2,050.00	41,283.10	—	—	—	43,333.10
Wisconsin	—	—	—	—	9,720.00	—	9,720.00
Wyoming	—	110,050.00	—	—	—	—	110,050.00
Totals	5,833,332.00	25,000,000.00	9,999,999.50	962,500.00	600,000.00	450,000.00	42,845,831.50

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